

**INSTITUTIONAL CHANGES FOR LAND
REDEVELOPMENT IN TRANSITIONAL CHINA: A
PROPERTY RIGHTS APPROACH TO THE CASE OF
JINHUAJIE, GUANGZHOU**

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SUMMARY

When the social transformation was spearheaded by the economic reforms set in place since 1978, the desire to alleviate the high concentration of population, employment and overcrowded situation of urban housing in old downtowns has triggered large-scale redevelopment in Chinese cities. The reshaping of landscape of Chinese cities has been largely driven by the fundamental institutional change. Reforms since 1978 have triggered profound institutional changes and economic restructuring. Old institutions were replaced by new ones, leading to dynamic interaction between the state and market, and among the various agents for land redevelopment. Based on the economical analyses of institutions and property rights, this study attempts to build on the existing knowledge of land redevelopment by answering these research questions: 1) why have there been institutional changes in the transitional China? 2) how do the institutions evolve and structure the land redevelopment in the transitional China? 3) following the institutional change, what patterns and processes of land redevelopment have been generated in transitional China?

Taking Jinhuajie, Guangzhou as a case study, data are collected from field reconnaissance surveys, government records and interviews. A property right approach was used in discussing and interpreting the data. Research results reveal the continuous decentralization since the reforms has created the local developmental states who advocate land redevelopment as a mean of local growth. However, the ambition of local government for land redevelopment confronted with the strong rights of existing

land users who hold firmly to their land unless satisfying price was paid.

During the transition, the local government initiated gradual institutional changes to speed up local land redevelopment and maintain land revenue in the city. Under the local growth coalition between the government and developers, property rights of state subordinated REDCs are characterized by in-kind land leasing payment with flexible planning control on the basis of bargaining. During this process, residents' land use rights were compensated and phased out in the emerging land market. Later, *de facto* ownership is offered to SOEs in a short period to use, develop and transfer their occupied land to speed up redevelopment of SOE occupied land. Transitional institutional changes help to dispel socialist land use rights of residents and SOEs and make further development to be able to follow market mechanisms. As the proof, when socialist land use rights are phased out of the land market, the government abandons coalition and takes further measures for SOE reforms. For urban land, new regulations to forbid negotiation for land leasing made land use in Chinese cities step further into the socialist land market mechanisms. However, informal property rights over land during the transitional redevelopment process create land rents. Pursuing land rents results in rapid but sub-optimal redevelopment and inadequate order in the land market. Informal property rights push redevelopment activities but do not provide certainty to the market and incentives for the optimal utilization of resources.

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1 INTRODUCTION

1.1 Background of the Research

1.1.1 Motivation

Based on neo-classical economics, there has been an established literature on land redevelopment in cities in Western countries. The market is viewed as the most powerful institution in guiding capital circulation and society structuring. Spontaneous order of the behavior of private sectors which seek profit maximization in the land market is dominant in land redevelopment (Marcuse, 1989; Hutchinson, 1992; Parson, 1993; Clark, 1994; Marcuse and Kempen, 2000; Henig, 1980; Williams, 1986; Marcuse, 1989).

Presently, land redevelopment in transitional socialist countries has become an interesting area for investigation, not only because the characteristics of transitional socialist economy is fundamentally different from the market economies, but also the special changes from a centrally-controlled urban development to a socialist market mechanism reveal a huge knowledge gap in the modern orthodox literature of the land redevelopment studies.

China serves as one of the best cases for study of land redevelopment in transitional economies. China has attempted to achieve industrialization without a parallel growth of cities in the 1949-1978 period, which was in sharp contrast to conventional wisdom that urbanization was closely connected with industrialization (Ma, 1981; Murphey,

1980; Kirkby, 1985; Lin, 1994; Han and Wong, 1998). When the social transformation was spearheaded by the economic reforms set in place since 1978, the desire to alleviate the high concentration of population, employment and overcrowded situation of urban housing in old downtowns has triggered large-scale redevelopment in Chinese cities. The municipal government of Chinese cities set targets to demolish dilapidated neighborhoods and restructure land use in urban built areas. Highways, modernist and postmodernist skyscrapers have been elevated in many cities, and vast shopping malls and new commodity housing have been replacing old neighborhoods at a remarkable pace. During two decades of transition, the Chinese cities have seen an unprecedented change in urban restructuring (Wu & Yeh, 1997; Zhu, 1999a&b). For instance, Shanghai demolished 26 million m² old houses from 1991 to 2000 (Wu, 2004). In Guangzhou, 4481.7 hectares of land in its central areas (Dongshan, Yuexiu, Liwan and Haizhu Districts) has been provided into the land market for redevelopment during the period from 1992 to 1999 (Li, 2002). Then, what is the mechanism for land redevelopment at such a scale in transitional China?

1.1.2 Background of this research

The reshaping of landscape of Chinese cities has been largely driven by the fundamental institutional change (Zhu, 2004a). Institutions are critical for land development, as they define incentives and constraints for the actors in the land market (North, 1990; Guy & Henneberry, 2002).

A planned economic system with central controls had been adopted in China since 1949

when the Chinese Communist Party (CCP) took governance of the country. Urban land, as one of the production means, was nationalized. Its use and allocation was determined by the central planning. Chinese cities were primed as the bases for rapid and optimum industrialization in the Stalinist style when priority was given to industrial development. Land use was thus pre-dominated by the growth of work units (Ma, 1981; Murphey, 1980; Kirkby, 1985; Lin, 1994). Administrative decisions based on “needs” and norms had so far governed the use and quantity of land consumed. Land was administratively transferred to the land users by the state. Neither of land rent or time limit was required, but the land users were not allowed to transact or transfer their rights of land use. With no revenues from land transfer, there was no incentive for land redevelopment.

Reforms since 1978 have triggered profound institutional changes and economic restructuring, which generate dynamic forces to rebuild the cities (Lin, 1997; Gaubatz, 1999; Zhu, 1999a; Zhang & Fang, 2004). Socialist market mechanisms are introduced to take the place of rigid central planning system. In cities, urban reform began in 1985, aiming at changes in central-local relationships towards power decentralization, government-enterprise relationships towards market orientation, and the distribution system towards the removal of the equalitarian practice. The Chinese Constitution was amended in 1988 to introduce land use right, and housing reform was experimented and implemented nationwide (Bian and Logan, 1996; Chen, 1996; Chiu, 1996; Dowall, 1993; Lau 1993, 1995; Wang and Murie, 1996; World Bank, 1992).

There have been enormous changes in urban restructuring and underlying processes as a result of the reforms. urban internal structure changed from a compact form to a more diffused one through polycentric and suburban developments (Lo, 1994; Wu and Yeh, 1999), with the population of the old city core declined in the 1980s and 1990s while the suburban population increased (Zhou and Ma, 2000).

1.1.3 Existing research

The subject of property transaction is not the land and building per se but essentially the rights over them (Zhu, 2004a). Land property rights therefore matter for the performance of the property market (Fischel, 1985). In China, an emerging urban land market is structured by newly evolved property rights which are responsible for the phenomenon of rapid land redevelopment. Old institutions were replaced by new ones, leading to dynamic interaction between the state and market, and among the various agents for land redevelopment (Han, 2000; Zhu, 1999a&b; Wu, 1996; Zhou and Logan, 1996). At the conjuncture of institutions and property rights, the endeavor towards a better understanding of China's land redevelopment converges with the efforts of Western urban scholars. As Webster and Lai (2003: 54) stated, "Markets, institutions, property rights, organizations and spatial order evolve hand in hand. Voluntary exchange cannot flourish and develop into firms, markets and governments without rules (institutions) to assign, arbitrate and protect private property rights".

At the core of studies of the patterns and processes of China's contemporary urban dynamics is a new urban development process, which includes actors with different

goals, ideologies, and powers, rules and regulations as well as various types of interactions. This new urban development process is fundamentally different from those under the planned economy as market has emerged as an institution for resource allocation, while administrative control over product distribution and exchange has weakened. Laws and regulations are endorsed by various governments at different levels, defining the formal rules for participation and interplay in the development process. The new roles and interests of the actors also define informal rules regulating their own conduct (Han and Wang, 2003). In coastal cities such as Shanghai, Shenzhen, Guangzhou, old institutions were replaced by new ones, leading to dynamic interaction between the state and market, and among their various agents (Han, 2000; Zhu, 1999a&b; Wu, 1996; Zhou and Logan, 1996).

Past studies on China's urban real estate development process revealed that among the different actors, the state played a dominant role. Various state agencies, including central ministries and city governments, state-owned enterprises (SOEs), even military units were active participants in the real estate development activities (Ma, 2001, p.1562). Empirical urban development case studies about Guangzhou affirmed the role of *danwei* (i.e., work unit) in the process of housing provision (Wu 1996; Wu and Yeh 1999). Nevertheless, economic reform brought in market mechanisms for regulating China's urban development, leading to a hybrid force comprising both the state and the market (Han, 2000). Interactions among the various state actors such as local governments and SOEs, as well as their interplay with other actors such as private estate

developers formulated a kind of growth-coalition for the development of the built environment (Zhu 1999a, 1999b; Han and Wang, 2003). Formal and informal rules were created along with the development process. The transition of land use right, meaning that land users, regardless of government organizations, enterprises or individuals, could trade their use rights for money. Housing reform and housing privatization were also sped up during the last two decades, allowing private ownership of properties, an active role of developers and other actors (Bian and Logan, 1996; Zhou and Logan, 1996; Wang and Merie 1999). Particularly, the complicated transitional process of urban land use rights cultivated ambiguous property rights between local government and “danwei” (Zhu, 2002) on the one hand, and some informal and quasi-legal rules in a complex web of personal relationships among local authorities, land agents, and developers on the other (Wong and Zhao, 1999; Ma, 2001).

1.1.4 Knowledge gap

In spite of the rapid accumulation of research publications in the study of China’s land redevelopment, some theoretical issues remain highly controversial and vague. First, there is no theoretical framework for analyzing land redevelopment process in the context of China’s institutional changes. Previous research mainly described the redevelopment processes rather than explaining them. By placing a common emphasis on the role of the local state and the formation of alliances or coalitions, current analysis neglects the response of other social forces, such as existing land users. Interaction of different actors in the urban (re)development was not addressed.

Second, few works touched upon the changes in the institutions. China's institutional changes demonstrate quite unconventional characteristics that existing research is far from enough. There were some pioneering works in analyzing China's land market –the progress of urban land market reforms and housing commoditization were reported by Dowall (1993), Logan (2002) and Wang & Murie (1996). Some transitional institutions such as ambiguous property rights and land development rights were also identified (Zhu, 2002, 2004a, 2005). However, the change of transitional institutions is far from clarified.

Third, previous research provides little insight into the evolution of institutions and land redevelopment patterns over times. In the transition from the centrally planned system to socialist market mechanisms, how the institutions, property rights over land and redevelopment characteristics co-evolve is still unclear.

1.2 Research Question

Based on the economical analyses of institutions and property rights, this study attempts to build on the existing knowledge of land redevelopment by providing an insight of the behavior of actors in land redevelopment, and to develop a theoretical framework for analyzing institutional transitions and their impact. Hence, this study aims to answer these research questions:

1. Why have there been institutional changes in the transitional China?
2. How do the institutions evolve and structure the land redevelopment in the

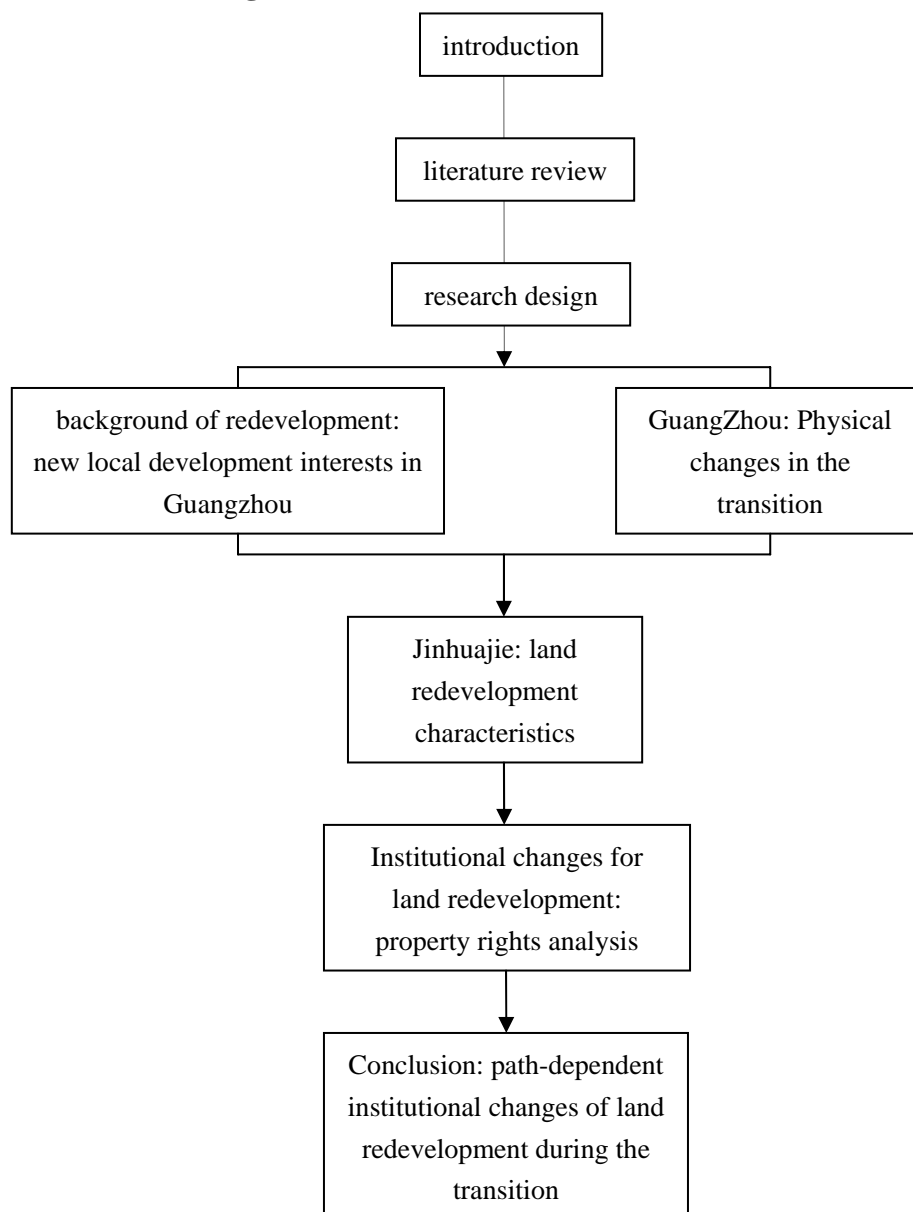
transitional China?

3. Following the institutional change, what patterns and processes of land redevelopment have been generated in transitional China?

1.3 Organization of the Dissertation

The study is organized in 8 chapters, following the structure of Figure 1.1.

Figure 1.1 Structure of the Dissertation



Chapter 1 introduces the research problem by setting out the research background and

existing study of land redevelopment, identifying research objectives and questions.

Chapter 2 reviews through recent theoretical literature in economical and sociological studies relevant to land redevelopment within a framework for this study.

Chapter 3 introduces the reason for case study, choice of study areas and method of data collection, etc. This chapter also provides the theoretical framework based on the literature review and the research problems.

Chapter 4 discusses the background for land redevelopment in transitional China. A series of reforms have been gradually initiated by the government in the transition towards a socialist market. Power of decision-making was decentralized to local governments by the economic reforms. Housing and urban reforms have made urban land a commodity and provided incentives for real estate development corporations and local government to develop land and pursue land revenue. Efforts to relocate industrial facilities were also initiated by SOE reforms. These government initiated reforms arouse new local land redevelopment interests, conflicting with old institutions which are principal in the central planning system. Due to the conflicts, institutions evolve gradually to generate informal property rights for land redevelopment.

Chapter 5 describes the urban development of Guangzhou since the People's Communist Party came into power in 1949. Both urban expansion and land

redevelopment in central areas have been summarized in time series.

Chapter 6 examines the evolution of land redevelopment in Jinhua in terms of redevelopment characteristics which include rapid large-scale urban redevelopment under the “local developmental state”, evolution of the redevelopment types and flexible planning control.

Chapter 7 discusses the nature of property rights evolution. The path-dependent evolution was structured by some key transitional institutions that prevailed during the transition to provide incentives for collaboration among different actors to redevelop urban land.

Chapter 8 concludes the study by summarizing the research findings, its implications for existing research work and future research work.

2 LITERATURE REVIEW

2.1 Introduction: Framework of Literature Review

This chapter provides a fundamental discussion of the theoretical background for the understanding of urban redevelopment in the transitional economy with emphasis on the property rights.

Urban redevelopment is a comprehensive process involving various actors with different interests and resources, different development stages and various forces shaping urban development. To get insight of the shaping force of urban redevelopment, this research first reviews the traditional economic theories for land development process. As such theories could not describe and explain the frequent interactions among the actors, the land market, institutional analysis is reviewed to incorporate land and property market. Drawn from new-institutional economics, new-institutional approach has been applied to urban and real estate market analysis and offer a good method to study land markets from the perspective of institutions. In the context of institutions, actors, especially the state has been highlighted in this review. Sociological analyses of “urban regime” and “growth coalition” in the Western countries and “developmental state” in East Asia indicate the state’s regulation in the land market. Similarly, all these paradigms have been deployed to explain the urban restructuring in transitional China. As one of the key component of institutional economics, property rights are reviewed and its importance in structuring the urban development and redevelopment behaviors is revealed.

This chapter is structured in the following framework (see Figure 2.1).

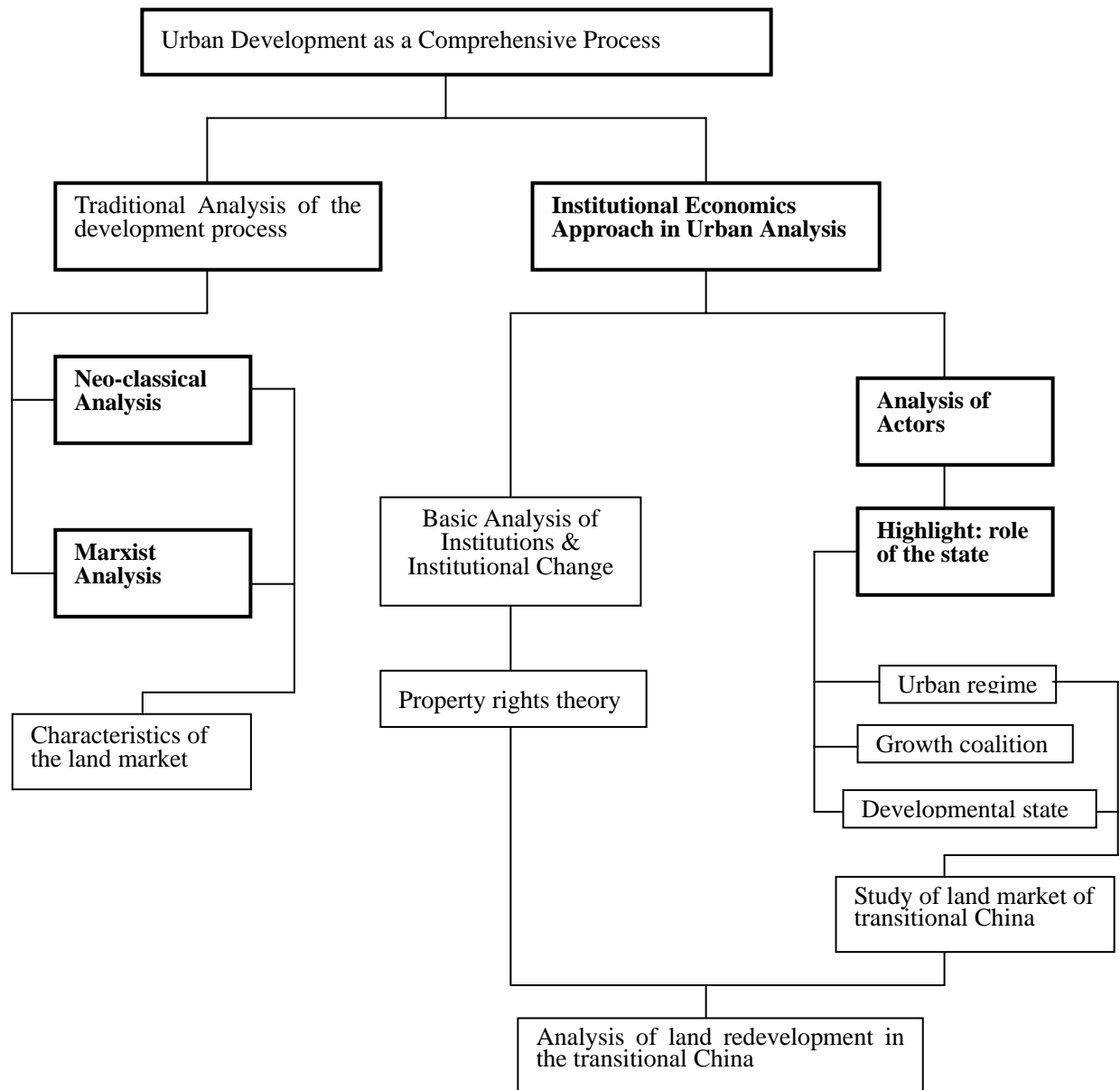


Figure 2.1 Framework of Literature Review

2.2 Urban Development as a Comprehensive Process

Urban development is always regarded as a comprehensive process, and academic literature has stressed in recent years the importance of understanding the strategies and interests of ‘actors’ and their relationship in the development process (Healey and

Barrett, 1990; Healey, 1991).

The development process is defined as both a physical and a social process. It not only recognizes the physically chronological character, it also embraces a variety of agencies, agency relations, activities and events involved in development project. It is the “process by which land changes from one state of development and use to another in response to changing needs and demands for space and buildings” (Barret and Whiting, 1983). The development process is also the process of “transformation of the physical form, bundles of rights, and material and symbolic value of land and building from one state to another, through the effort of agents with interests and purposes in acquiring and using resources, operating rules and applying and developing ideas and values” (Healey, 1992: 36). It has thus been studied in terms of strategies, interests and actions of the various actors involved in the development process (Healey and Barret, 1990; Rudel, 1989), development stages (Barret et al 1978; Barret and Whiting 1983; Cadman and Rosalyn 1995), different forces in shaping urban development (Hawley 1950; Berry and Kasarda 1977; Stone 1989; Molotch 1992).

2.2.1 Actors

Urban development process is shaped by the behavior of different actors. Knox and Pinch (2000: 167) identified: building provision is “a function of social relations specific to time – and place – that involve a variety of key actors (including land owners, investors, financiers, developers, builders, design professionals, construction workers, business and community leaders, and consumers). At the same time, the state – both local and national – must be recognized as an important agent in its own right and as a regulator of competition between various actors”. It is also argued by Pahl (1969) that the property focus of urban research should be the interplay of spatial and social constraints that determine opportunities of access to urban resources. He also points out that activities, policies and ideologies of the managers or controllers of the urban system are of great importance in understating the social constraints. As the managers of scare resources are grouped to different spheres, decision

making of each group thus becomes the source of socio-spatial differentiation (Knox and Pinch, 2000).

2.2.2 Events and Stages

Different events and stages are involved in the physical development process that form the path a project might take chronologically (Barret and Whiting, 1983). Development process is regarded as complicated, and can be divided to several steps: initiation; evaluation; acquisition; design and costing; permissions; commitment; implementation; let/manage/dispose (Cadman & Austin-Crowe, 1991).

As the most straightforward depiction of the development process, Cadman and Austin-Crowe's (1978) four-phase sequence of evaluation, preparation, implementation, and disposal is rough but clear. Trying to capture both the cyclical nature and the diversity of the development process, Barrett *et al* (1978) transform the linear model into a cyclical form, by devising their 'development-pipeline' model (see Figure 2.2). Based on the assumption of substantial diversity of actor-event relations, Barrett proposed analysis through a loosely structured event sequence in which events were recognized to be able to occur in parallel as well as in sequence. The whole development process was set within the broader context of demographic, economic and political change.

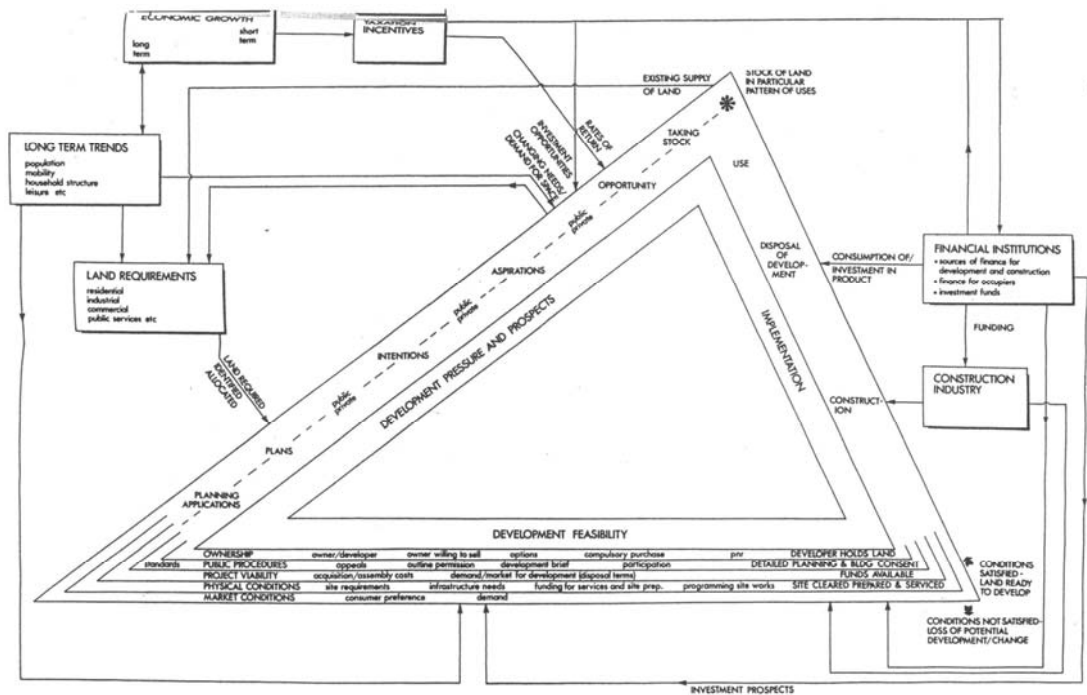


Figure 2.2 the Development-pipeline Model (Barrett et al. 1978)

2.2.3 Driving Forces

Urban development process is also recorded to be shaped by various driving forces. A large body of literature on the evolution of urban development follows the two strands – technological tradition and the political economic tradition.

According to Dewey's review, the technological approach accentuates market trends that result from technological changes such as the construction of highways or communication systems. The highways change the value of land by reducing commuting time between a central city and outlying areas. These theorists including Rudel (1989), Hawley (1950), Berry and Kasarda (1977), who argued that trends in the market produced trends in regulation over time.

Political economic approach attempts to incorporate political inequalities and conflict

into explanations of property development. Detailed case studies have been provided to reveal how political economic processes have shaped urban development in particular cities. For example, by making generous campaign contributions, wealthy elites can influence the land-use process, and shape land-use patterns to their own ends. Some researchers in this tradition apply Marxist theory to processes of urban development (Castells, 1983; Harvey, 1978). Analyses of land use control and planning also present how political economic processes structure urban development in particular areas (Dorothy, 1997).

2.3 Traditional Analysis of the Development Process

For a long time, economists, sociologists and planners have tried to give a reasonable explanation to the development process by developing all kinds of models. Traditional approaches to the analysis of urban development can be divided into two strands: neo-classical and Marxist approaches. Both approaches are functionalist in nature with an emphasis on the supply-demand relationships. Neoclassical approach assumes that only rationally acting individual actors operate on the market. Price adjustments, mainly through the demand side conditions, will automatically lead to an equilibrium. Marxists approaches take the view that the market is based on the possession of capital: supply-demand relations are defined by the contrast between labour and capital.

2.3.1 Analysis of urban redevelopment in neo-classical economics & Neo-classical models

Markets are usually regarded as a good way to organize economic activities (Mankiw,

2001) which include the development of urban built environment. According to the neo-classical economics, markets are operated through the “invisible hand” (Smith, 1776). Individuals behave rationally in maximizing utilities with preference, and relative prices drive the market moving toward a long-run equilibrium. Free competition directs economic activities through prices which reflect demand and supply situations. For an efficient market, there are three fundamental conditions: maximum utilities, rational behavior and equilibrium (reference). Being assumed to behave rationally, individuals orient their decisions and contract with each other according to price signals, seeking and being able to seek the maximum utility and margin in their own self-interest (Marshall, 1920). In this way, mutual benefit is reached through the self-regarding contracting process. Institutions and organizations are regarded as of fiddling importance, human behaviors in the transaction process are filtrated as pure operation of price mechanism and competition. The operation of the market is thus assumed having no friction or transaction cost. Any real market is considered a sub-optimal deviation from the neo-classical ideal.

Derived from the neo-classical tradition in economics, these models assume sufficient supply should be brought forward to meet demand, “at the right place, the right time and the right price”. Researchers in this field sought to assess efficiency or equity with which the land market operated within a given political economy, assuming perfect market conditions and rational behavior on the part of market actors (Healey and Barrett, 1990; Harvey, 1982; Fraser, 1984).

Based on the neo-classical economics, there has been an established literature on urban redevelopment in Western cities. Five main categories of redevelopment determinants are identified in a broad literature review. Relevant are the critical influences of production (Marcuse, 1989; Hutchinson, 1992; Parson, 1993; Clark, 1994), real estate, displacement of social classes as part of broad socio-spatial restructuring in central cities (Marcuse and Van Kempen, 2000; Henig, 1980; Williams, 1986; Marcuse, 1989; Clark, 1994), demography, and policy. Spontaneous order of the behavior of private sectors in the land market is dominant in urban redevelopment. The market is believed to be able to adapt to changes in demand and supply without central planning (Hayek, 1944; Nelson & Winter, 1982; Witt, 1991). In a city, this means the market's ability to respond to changes in resource value, including urban land (Webster & Lai, 2003). There are also a small number of urban researches which focused on land and property markets by examining the issue of property-led urban regeneration (Carbonaro and D'Archy, 1993; Jones, 1996). They argued that by enhancing the supply side conditions of urban system it was possible for new development to be stimulated and generally for economic growth to be generated.

Giving insufficient analytical attention to the difference between occupier (user) and investment demand, providing no means for examining the methods used by agents within the development process, such equilibrium models are quantitative methods which seldom think about social aspects of those involved in development and uncertainty. They are only helpful in understanding the development process for

standard types of project in relatively stable conditions where active property markets exist, which are not dominated by a few large operators.

2.3.2 Marxism structure models

The Marxian literature shifts from the neo-classical preoccupation with the formation of prices in markets to an interest in the way markets are structured through the power relations of capital, labors and landowner (Healey, 1991). Mostly concerned with the production of commodities under capitalist social relations, Marxian studies emphasize the questions of urbanization, the provision of housing and infrastructure. The focus has been the struggles between landowners and capitalist producers over the capture of 'surplus value' generated in production, in order to locate the processes of production within a general model of a capitalist economy. These researches explain the social relations attached to construction and development as well as the role property plays in the accumulation of capital (Luithlen, 1997), emphasizing the way how markets are structured through the power relations. For the analysis of property development process, the literature focuses on the ways in which capital flows into and out of different sectors of the economy (Harvey, 1982, 1989; Ball, 1983; Ambrose, 1986).

One famous model for property development is addressed by Boddy (1981) from Marxist economics. Three 'circuits of capital' are distinguished. In the first, 'industrial capital', surplus is generated by the production of commodities. In the 'commercial capital', it is generated by the purchase and sale of commodities and in 'interest-bearing

capital', surplus is generated by the purchase and sale of money capital. Development process is thus structured by the dynamics of these three circuits and the tensions between them. Harvey (1985) also developed a new model in purely capital flow function to eliminate the influence of variable human behavior (see Figure 2.3). Fixed capital and consumption fund, as two spheres of investment, are detected. The final result of the operation of this circuit is the creation and modification of the physical environment within which all economic and social activity may proceed.

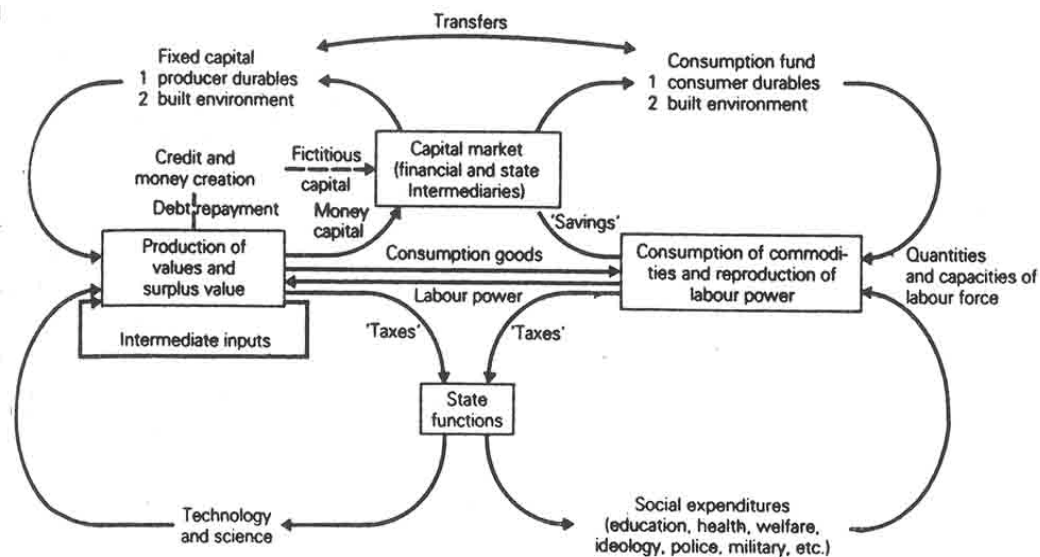


Figure 2.3 the Built Environment in the Structure of Relations between Primary, Secondary and Tertiary Circuits of Capital (Harvey, 1985)

Base on Harvey's study, Ambrose (1986) first builds up a development system (see Figure 2.4) to provide an overall context. Made up of 3 main 'fields' — the finance industry, the state, and the construction industry, the development system sets out the principal relationships among the 3 main 'fields' or sets of agents and between the agents themselves.

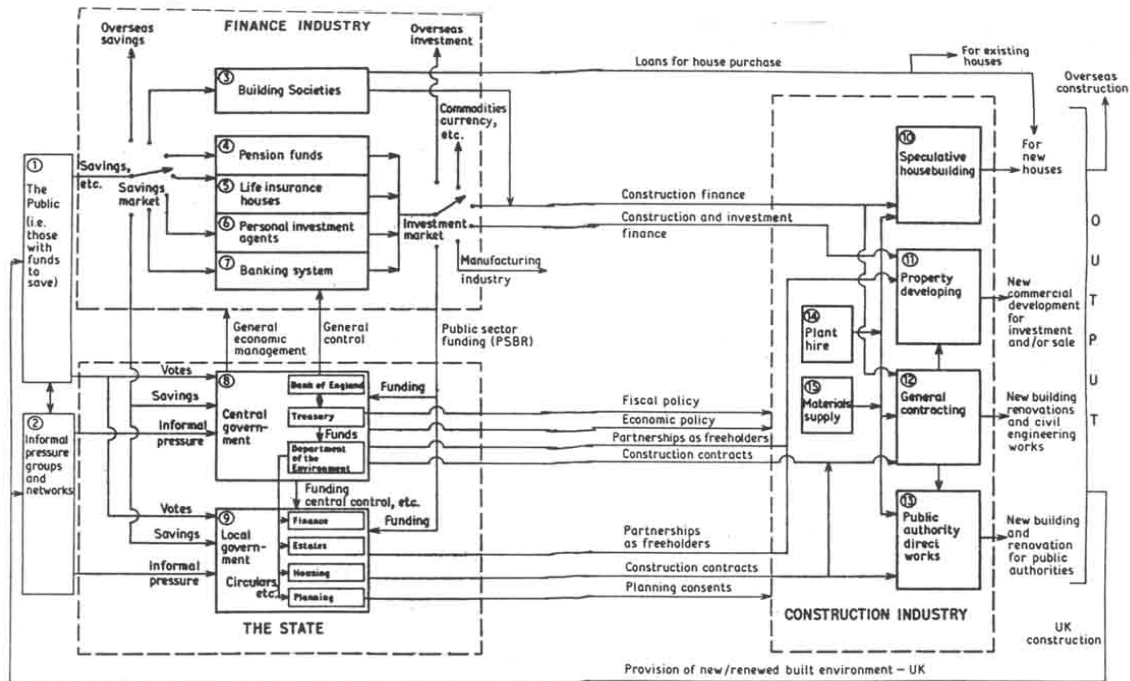


Figure 2.4 the Development System in the United Kingdom (Ambrose, 1986)

However, this approach is not fit for land market study. It is clear that land cannot be conceived as a commodity that is produced by human effort for the purpose of exchange value, and neither can location. However, there is a merit in this approach that at least the work on land, which means the development of property can be identified and be placed into the broader context of accumulation (Massey and Catalano, 1978).

2.3.3 Characteristics of the land market

The reality is that the essential assumptions underlying a perfect free market rarely apply, especially to the land market. The fact that both land and property developed on it can be transferred on an open market, does not make for an efficient market.

First of all, land supply is limited. Also, both land and property are fixed to one location and investment in them requires large capital outlays. The concept of land implies a host

of external effects, positive as well as negative. All these attributes make for a very imperfect market. Moreover, both land and property on it are long-lasting assets and the value to the user is dependent on many factors which occur outside the plot and are thus beyond the control of the owner or investor (Luithlen, 1997). Just as the example given by Webster and Lai (2003), if a home purchaser transacts with a vendor for a set of well-delineated rights over the home and the land on which it stands, the price paid reflects the buyer's valuation of many neighborhood attributes which are implicitly bundled in by which are not subject to formal contract. Combined with the complexity attached to land, the land market is bound to be highly speculative and unpredictable compared with other markets. The neoclassical analysis is thus at pains in charting theoretically the process of change in the land market and its underlying dynamics. There rises a requirement for drawing on the vary insights of the market.

Situations become even complicated for urban redevelopment in a city as more actors are involved in the urban redevelopment process. With the high density of population and social activities in central cities, social affairs such as social equity and social structure are not evasive for the manager of the society – the state when urban renewal takes place. The physical environment is the tip of an iceberg with much that is hidden beneath the surface which includes changes of economy, social structure and political environment. Generally, based on the market situation, a social system will regulate the distribution of resources so as to achieve its political and economical purposes. Frequent intervention from the state brings the land market of urban redevelopment even far

away from the “perfect market” (Guy and Henneberry, 2002).

Moreover, many valued resources are not allocated by markets in a city, giving rise to market failure which includes externality and public goods (Pigou, 1932; Coase, 1960; Arrow, 1970; Webster & Lai, 2003). Externality and public goods problems are endemic in society but particularly in cities where many different types of actors interact in close proximity (Pigou, 1932; Webster & Lai, 2003). Externalities and public goods cause distortions in the allocation of resources because of the absence of accurate information about how they are valued. The market oversupplies goods that yield third party costs and undersupplies or fails to supply goods that yield third party benefits. The idea of market failure actually implies the existence of a perfect market which only exists in theory and not in reality (Webster & Lai, 2003).

The inability of markets to deliver certain kinds of goods and services is the assumption underlying many government functions (Webster & Lai, 2003). Spontaneous markets require responsive governments to create legal environments that support innovation, competition and wealth accumulation (Webster & Lai, 2003). As the regulator, state and its agencies have an important role in the development through passing and enforcing laws, levying taxes, administering regulations, giving subsidies, building and maintaining infrastructure, providing services, settling disputes, and buying and selling land (Rudel, 1989). Governments therefore seek to regulate production and exchanges that yield social costs and provide services that might not otherwise be insufficient

supply. Planning for infrastructure, services and utilities is carried out to solve the “market failure” problems in the land market. Due to the market failure, transactions in the land market are always mediated by the “visible hand” instead of being solely governed by the “invisible hand”. That’s why studies of urban development and redevelopment in recent years have been focused on the institutional ensembles and regulatory mechanism (Lin, 2002).

2.4 The Institutional Economics Approach in Urban Analysis

For seven decades (1930-2000), studies of new institutional economics have obtained quiet great progress in the analysis of human behaviors, most of which are based on the criticism and amend of unpractical assumption of traditional economics. It mainly focuses on relationship among property rights, transaction costs, institutions and economic behaviors. While the neo-classical economics assumes human behaviors to be rational (Machina, 1987; Winter, 1986), new institutional economics takes a more practical view towards the human behaviors: individual actors always confront with nonrepetitive choices where the information is incomplete and where outcomes are uncertain. For a review of the economic theory of property rights readers are referred to seminal contributions by Coase (1937, 1960), Alchian (1967, 1972), Demsetz (1967), Cheung (1969) and Pejovich (1990).

2.4.1 Basic Analysis of Institutions & Institutional Change

The institutionalist approach provides a theory of social dynamics. Voluntary exchange cannot flourish and develop into firms, markets and governments without institutions to

assign, arbitrate and protect private property rights (Webster & Lai, 2003). Rules and procedures evolved simplify the process of individuals to process, organize, and utilize information. The consequent institutional framework, by structuring human interaction, limits the choice set of the actors and reduce the uncertainties involved in human interaction (North, 1990).

2.4.1.1 Institutions

North (North 1990: 3-4) conceptualized institutions as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.... In the jargon of the economist, institutions define and limit the set of choices of individuals”. Institutions affect the performance of the economy by their effect on the costs of exchange and production. Institutions determine the cost of transacting and producing (transformation) and in the meantime, define and enforce property rights so as to induce potentially mutually beneficial resource uses and activity. It has been proved when transaction costs are significant, institutions matter (Coase, 1960; Alchian, 1977; Demsetz, 1967; Barzel, 1997). “A set of political and economic institutions that provide low-cost transacting makes possible the efficient factor and product markets underlying economic growth” (North, 1992: 6). Similarly, a bad choice of institutional arrangements is likely to have different economic consequences.

There are two types of game rules: formal ones and informal ones, while institutions also include the enforcement characteristics of both. In short, they consist of the structure that humans impose on their dealings with each other (North, 1992). Formal

constraints are the rules that human beings devise such as constitutional, property-rights rules, and contracts. Informal ones include conventions and codes of behavior such as norms and customs. Informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies (Aoki, 2001), setting the way by which the mind processes information and informal constraints thus play an important role in the makeup of the choice both in the short-run and in the long-run evolution of societies (North, 1990).

However, formal rules can complement and increase the effectiveness of informal constraints by lower information, monitoring, and enforcement costs and hence make informal constraints possible solutions to more complex exchange. They can also be enacted to modify, revise, or replace informal constraints. The increasing complexity of societies would naturally raise the rate of return to the formalization of constraints and technological change tended to lower measurement costs. The creation of formal legal systems to handle more complex disputes entails formal rules; hierarchies that evolve with more complex organization entail formal structures to specify principal/ agent relationships (North, 1990). Formal rules include political rules, economic rules, and contracts. Problems of information—related to the possibility of opportunistic behavior of one of the agents—make it necessary to draw up contracts and define property rights (Hodgson, 1988). Political rules interact with economic rules which define economic policy and then specify a bundle of property rights over the use and rights to derive income from property within the contract that enable the exchange to occur in a human

interaction. The efficiency of the political market is the key to the efficiency of property rights. If political transaction costs are low and the political actors have accurate models to guide them, then efficient property rights will emerge. But high transaction costs of political markets and subjective perceptions of the actors more often have resulted in property rights that do not induce economic growth, and the consequent organizations may have no incentive to create productive economic rules (North, 1990).

2.4.1.2 Institutional change and path dependence

Here comes the question: what determines the divergent patterns of evolution of societies, polities, or economies over time? North (1990) concluded: history matters. “The consequence of small events and chance circumstances can determine solutions that, once they prevail, lead one to a particular path” (North, 1990: 94), featuring not necessarily the most optimal solution. A “path” is an identifiable pattern of constraints and incentives which generate strategies, routines and shared decision rules through operation in a given institutional system (Hall, 1986). Path dependence occurs because of increasing returns to scale and imperfect markets characterized by significant transaction cost (North, 1990). A path dependent historical or temporal process is one characterized by a self-reinforcing mechanisms or realization of increasing returns in moving along this path (Arthur, 1994; North, 1990).

The notion of path dependency suggests that lock-in effects and sub-optimal behavior may persist (Arthur, 1994; David, 1994). Path dependence constitutes a particular kind of historical process with a number of distinctive characteristics (Pierson, 2000;

Mahoney, 2000). First, small events early in the sequence could have disproportionately large effects on later events and events trigger a move toward a particular path. Second, during the early stages of a sequence, increasing returns or self-reinforcing mechanisms reinforce the movement along one path. Over time organizations/actors operating within the institutions that define a particular path become more adept and knowledgeable and use this to enhance the efficiency of the institutions. Third, previously viable options may be foreclosed in the aftermath of a sustained period of positive feedback, and the path came to an end when new events dislodge the long-lasting equilibrium. In addition, Mahoney (2000) and Pierson (2000) also point out that outside of the marketplace, other mechanism, namely the exercise of “political authority” or “power” in favor of a particular path, would induce further movement along as powerful actors can affect institutions or rules.

2.4.2 Economic theory of property rights

2.4.2.1 Definition of property rights

Generally, property rights are explained as the bundle of rights to use and dispose of an economic resource and to derive utility (income) from it. According to the Roman law which specifies several categories of property rights, ownership rights consist of the right to use assets (*usus*), the right to capture benefits from assets (*usus fructus*), the right to change its form and substance (*abusus*), and the right to transfer all or some of the rights specified above to others at a price mutually agreed upon (Pejovich, 1990: 27-28). In one introduction of the economic significance of property rights, Pejovich (1997: 3) explains: “property rights are relations among individuals that arise from the

existence of scarce goods and that pertain to their uses. ... That is, property rights do not define the relationship between individuals and objects. Instead, they define the relationship among individuals with respect to all scarce goods.”

2.4.2.2 Property rights and transaction costs

Transaction costs are usually defined as the costs of all resources required to transfer property rights from one economic agent to another. Transaction costs include the costs of making an exchange (for instance, discovering exchange opportunities, negotiating exchange, monitoring, and enforcement) and the costs of maintaining and protecting the institutional structure (for instance, judiciary, police, armed forces) (Pejovich, 1997). Only when transaction cost is zero, an efficient allocation of resources can be independent of the initial assignment of property rights (Alchian, 1977). However, it is always costly to transact. Any transfer occurs with exchange entail costs that result from both parties attempting to determine what the valued attributes of these assets are (North, 1990). Transactions only occur when the increased utility it brings is larger than the transaction costs that its operation needs. Transaction costs arise because of difficulties of communication, information collation and ambiguities of entitlements or rights. If information is not complete or not perfectly distributed, transaction costs are not therefore zero, and the outcome for any externality problem will depend on the distribution of property rights (Lai & Yu, 2002). Property rights thus matter. As the transaction costs are always positive, if an alternative form of economic organization could achieve the same or even greater value of production at less cost than would be

incurred by using the market, it will be chosen.

Transaction costs are saved when owners of labor, land and capital resources pool property rights and submit to planned economic co-operation (Webster & Lai, 2003). In firms and governments, the rearrangement of activities and rights would not be decided by contract but as a result of an administrative decision as to how the rights should be used. Especially for the government, it is able to avoid market altogether if it wishes (Coase, 1960; Demsetz, 1967). In another word, transactions are replaced by systems of rules in this situation. However, at some point the costs of organizing production may become too costly to maintain – taking account of the costs of perverse responses to rules as well as the costs of administering and policing rules – then an organization becomes inefficient (Coase, 1937; Webster & Lai, 2003). In a city, the costs of a government program or policy can exceed the benefits delivered. Property rights, organizations, institutions and transaction costs thus reorganize (Webster & Lai, 2003).

2.4.2.3 Property rights and human behaviors

Clearly defined private property fights are an essential requirement for resolving the conflict of interest among individuals via market exchange (Alchian, 1977). In markets, individuals contract to exchange property rights with others in pursuit of maximized utility, and mutual benefit is reached through this self-regarding contracting process which is explained as ‘invisible hand’. However, this is so to the extent that all resources that have a value also have a price (Webster and Lai, 2003).

Following the definition of property rights, the right of ownership contains three elements: exclusivity of ownership, transferability of ownership, and constitutional guarantees of ownership (Pejovich, 1997). By internalizing the costs of a decision, the exclusivity of ownership creates strong incentives for owners to seek the highest utility from their property. Transferability of ownership provides incentives for resource to be transferred from a less optimistic to a more optimistic owner. Meanwhile, the constitutional guarantees of ownership create incentives for individuals to accumulate wealth via investments that have long-run consequences. All these attributes build the responsibility of the owner (Alchian, 1977) and change of situation of attributes will certainly affect the owner(s) behavior.

In the economic point of view, efficiency of a property rights structure depends on whether it can guide incentives to achieve a greater internalization of externalities (Demsetz, 1967). Generally, an increase of communality of property, which is often expressed as the increase in the number of owners, leads to increase of the cost to internalize. Three categories of property rights have been divided: private ownership, communal ownership, and public (state) ownership (Demsetz, 1967). Under public community rights the consequences of any decision are less fully thrust upon the decision maker and make some resources appear to be used wastefully or inappropriately. For example, with communal ownership¹, all the members share the

¹ According to Pejovich (1997), communal ownership means that a well-defined group of people jointly hold a nontransferable asset. Ordinarily, members of the group have the right to decide how to use the asset and the right to allocate proceeds. But they have no right to sell those rights to others.

rights. When one pursues individual maximum utility, part of the cost may become the liability of other members. Correspondingly, no one can exclude other members from sharing the gain of his effort. Negotiation cost among members may be too high because of the large number of interacting parties. Since it is only through membership in the group that an individual can capture some benefits from resources held in common, communal ownership creates a bias against decisions that have long-term consequences. All these lead to great externality. In the situation of state ownership, only part of the rights can be officiated by the deputies appointed by the state when using and transferring resources and allocating gains. This reduces their incentives to pursue great economic efficiency and surveille others. Comparing to them, private ownership offers much clearer rights and responsibility to the owner. The single owner will attempt to maximize the right's value by taking into account alternative future time streams of benefits and costs. In effect, many externalities existing with state and communal ownership are now internalized with the private ownership and led to incentives to use the resource more efficiently.

Barzel (1997) views property rights and resources as having multiple attributes. The degree to which ownership is established over a commodity's separate attributes depends on the cost of creating and policing contracts that establish that ownership. Attributes to which rights are not assigned by formal or informal contract are in the public domain² and subject to competition (Webster & Lai, 2003). The way to check to

² According to Barzel (1997), public domain means the domain (spatially or otherwise defined) within which competition occurs in the consumption of resource attributes.

what degree ownership is established is to see how many rights attributes have been well defined through formal or informal contracts. Which attributes are left in or removed out the public domain depends on the attributes value and the cost of assigning property rights over the attributes – transaction costs. As both are changing unremittingly, there will always be a demand for reallocation of property rights. If it is too costly to establish property rights over every attribute of a good or resource, some will inevitably be left in the public domain (Barzel, 1997; Webster & Lai, 2003).

In the absence of clearly assigned rights, resource attributes left in the public domain are likely to be dissipated due to the resource expended in capturing or protecting them from overusing. However, public domain goods and services tend to congest in cities, resulting in dynamic realignment of property rights over time (Webster & Lai, 2003). A responsive local government will be required to find out ways to assigning the right more efficiently. One principle given by Barzel (1997) is: rights to a resource should be assigned to those in the strongest position to influence the resource's contribution to the desired outcome. Especially in the case of collective action problems, rights over the various resource attributes involved should be assigned to those who have the greatest ability to influence the way those resource attributes contribute to externality reduction. In the same vein, Barzel (1997) suggests the assignment of policy or legal jurisdiction to the level of government most able to deliver a particular government function effectively in pursuit of accepted goals.

Property rights approach offers a more dynamic analysis of urban markets and of the

scope and requirement for intervention. If property rights are understood to be a function of resource value and the transaction costs of excluding others, then the boundaries of the public domain will be constantly shifting and property rights over goods will be constantly reordering (Webster & Lai, 2003).

2.4.2.4 Property rights and market failure

An understanding of property rights is crucial to the analysis of market failure. With the property rights theory, externality and public goods problems may be understood to be problems of undeveloped markets or more generally underdeveloped institutions. Market failure problems arise “when resources have a value, but are ill-defined in terms of property rights and as a result of proprietary ambiguity, remain unpriced and inefficiently allocated” (Webster & Lai, 2003: 99). Without clearly defined property rights, a transaction will influence the third party whose costs are not able to be taken into account in the transaction. With the same reason, some resources are left in the public domain and are collectively consumed, which leads to dissipation of the resource. The solution to a market failure problem is to assign property rights, and the efficiency of any particular solution depends on the transaction costs saved less the cost of creating institutions that create the property rights (Barzel, 1997; Webster & Lai, 2003).

It is more useful to compare the efficiency of externality situations under alternative property rights distributions than to compare any particular externality problem with an ideal model of the perfect market (Webster & Lai, 2003). A wide choice of institutions

may emerge to assign property rights in the face of market failure problems in cities. They may emerge voluntarily or by government imposition and the efficiency of institutions will depend on the costs of creating and maintaining it and the benefits to reduce property rights ambiguity (Hirschman, 1970; Barzel, 1997).

2.4.3 Analysis of Actors

Revealed in New Institutional Economics analysis, study of the behavior of actors should be placed in the centre of the analysis of building provision. Knox and Pinch (2000: 167) identified: building provision is “a function of social relations specific to time – and place – that involve a variety of key actors (including land owners, investors, financiers, developers, builders, design professionals, construction workers, business and community leaders, and consumers). At the same time, the state – both local and national – must be recognized as an important agent in its own right and as a regulator of competition between various actors”. It is also argued by Pahl (1969) that the property focus of urban research should be the interplay of spatial and social constraints that determine opportunities of access to urban resources. He also points out that activities, policies and ideologies of the managers or controllers of the urban system are of great importance in understating the social constraints. As the managers of scarce resources are grouped to different spheres, decision making of each group thus becomes the source of socio-spatial differentiation (Knox and Pinch, 2000). Institutions for building supply shape not only actors’ opportunities but also their sense of possibilities.

Aiming at penetrating into the detail of agency relationships in the negotiation of

development projects and offering ways of generalizing behavior of actors and the significance of events in the development process under different conditions, the institutional emphasis in the analysis of development activity uncovers a varied array of actors and interests who play diverse roles in relation to various elements of the development process (Gore and Nicholson, 1991).

Emphasizing on class relations and social differentiation, Max Weber (1947) centers his analysis on an 'action frame of reference' which puts 'man as the actor' as the centre and seeks to explain social systems in terms of the behavior of people. Later, scholars propose descriptive institutional models of the development process which take account of the complexity of the events and agencies involved in the process and the diversity of forms that the process may take under different conditions (Healy and Barret, 1990; Healey, 1994; Ball, 1986, 1998). Three main themes are central to this approach: (1) the identification of agents and institutions, their different goals, ideologies and relative power in the urban development process; (2) the nature of interactions among agents and institutions and the kinds of constraints they impose on each other; (3) the effect of these interactions on the development process.

Various actors have been identified including "the original landowner or any subsequent purchaser of the land; the developer who undertakes the process; the building industry, including the professions connected with it; the legal profession; the public authorities; the person lending money; the ultimate consumer who may be a tenant or owner of the

finished development”(Lichfield, 1956: 4). Drewett (1973) captures the developer’s action approach without time dimension in his model. Two behavioral models were developed to characterize the roles of different actors involved in the development process (Bryan *et al*, 1982; Barrett & Whitting, 1983). Bryan *et al* (1982) regard actors as independent, with the ability to make the decisions and to take actions in their own interests and conclude that the decisions and events of process relate to the actors who are responsible or whose roles involved at each stage. Barrett and Whitting (1983) characterize development activity by an interactive approach. The development process is thus made up of a series of interactions and transactions between the various actors involved.

Of particular interest of the scholars are the role of developers and state. Developers have often been regarded as the key players in development process (Clawson, 1971; Maclaran, 1993). It is the developers who initiate the development process – by recognizing an opportunity to profit from a perceived demand for certain types of building in particular locations (see Figure 2.5). Developers are connected to financial institutions, governing bodies, the communities in which they build, space users, and a range of vendors and undertake the entrepreneurial role of uncertainty bearing (Harvey, 1982). As the regulator, state always plays an important role in the development process. Its role is highlighted in next section.

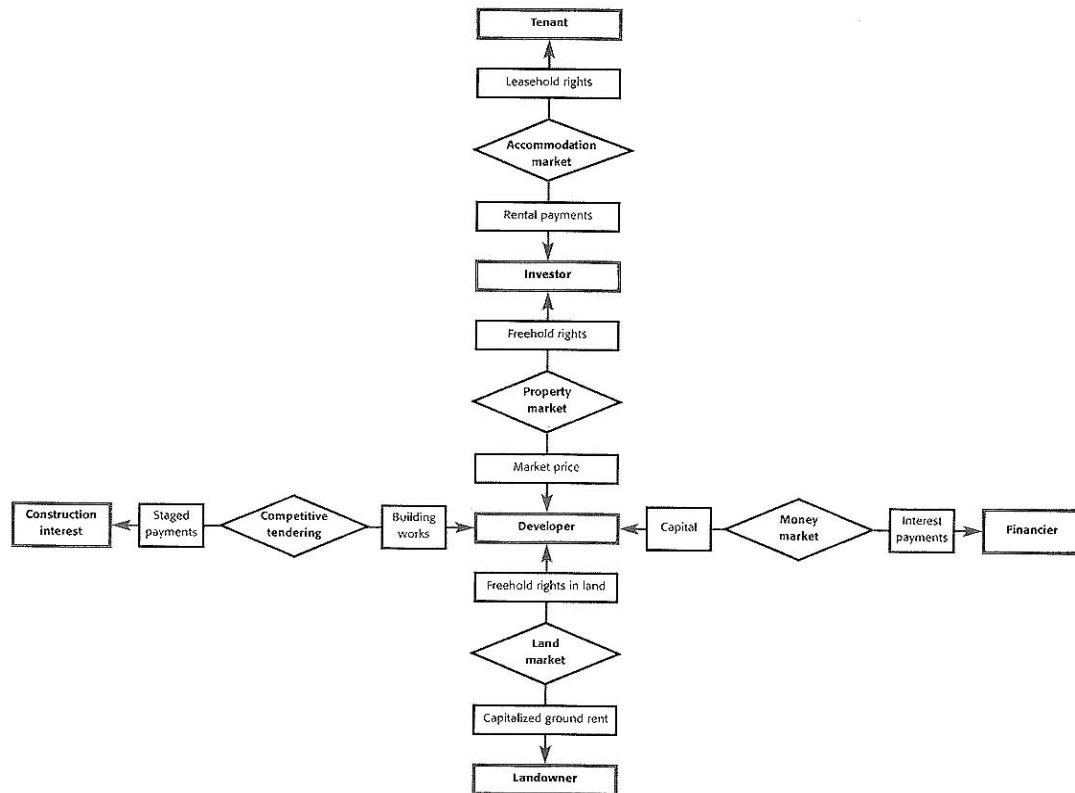


Fig 2.5 Major Private-sector Relations within the Property Development Industry (Maclaran, 1993)

Healey (1992) and Healey & Barret (1990) called for the use of a structure-agency institutional model in order to generalize the nexus of the actors and relationships involved in the property development process. In this model, institutional rules govern how resources are used and are set by the institution or the political process. Healey tries to focus on distinguishing levels of analysis. A four-level process is introduced. First, a mapping exercise is undertaken for describing what happens in the development process. Second, a rational analysis is made to identify the agencies involved in the process—their roles and power relations. Third, the strategies and interests of significant actors are analyzed and related to the structural resources, rules and ideas. The fourth level is to theorize the nature of mode of production and regulation, on the basis of the empirical findings. Based on British cases, Healey focuses on roles in both

production by using the elements of a production process and consumption by the 'products' in the development process. Healey's series of papers (see Healey, 1991, 1992, 1994, 1995, 1998) demonstrated the potential for obtaining new insights into development by adopting and adapting a range of approaches used by researchers from outside the property field: mainly geographers, economists, planners and sociologists. However, such analyses are not subject to much theoretical challenge or empirical testing (Hooper, 1992) and fail to offer any deep insight into the mechanisms of market capitalism, or to identify in any detail how the economic process frames the local development practice (Guy and Hennebery, 2000).

Ball (1983; 1986; 1998) argued that the structure of provision (SOP) model reconnects agency and structure, organizations and markets, in a dynamic, contextual analysis (Guy and Henneberry, 2000). According to Ball, 'provision' encompasses the whole gamut of development, construction, ownership, use and even health care, etc. Such 'provision' is structured by the network of organizations and markets involved in a particular form. Organizations and markets were both parts of the structure of provision, with two-way influences on each other. Meanwhile, contingent contexts are at the core of the SOP approach. Defining what a SOP is has to be treated in the same empirical specific way. According to Ball himself, SOP is only a conceptual device for incorporating institutions into analyses of the development process. The provision thesis provides a perspective for empirical research rather than a theory of explanation (Ball, 1998).

2.4.4 Highlight: Study of the Role of the Local Government in the Land Market

It is argued by Pahl (1969) that the property focus of urban research should be the interplay of spatial and social constraints that determine opportunities of access to urban resources. At the scale of city, the government always plays the role of controller of rights. In fact, the government's role in shaping an institutional structure for the market in urban physical development is widely considered both essential and crucial. The important role of government could be revealed by the approach of property rights.

2.4.4.1 Property rights and government

At a system level, the market economy is demonstrably superior to a centrally planned economy as the market is more efficient than the plan in allocating goods. It is because the market is based on the system of private property rights and the rule of law which allows the maximum possible degree of individual liberty subject to certain prohibitions that are necessary for collective existence (Aoki, 2001; Webster & Lai, 2003).

However, society will demand planning in situations where the transaction costs of using the market are greater than using commands (Webster & Lai, 2003). Market failure requires the government to assign property rights in the political market. However, not all the government interventions could succeed in delivering acceptable distributions of benefits in the market. Some policies are successful as they protect property rights, preserve private benefits, and also deliver broadly acceptable constraints on private action (Barzel, 1997; Webster & Lai, 2003). In other cases, government inefficiency leads to the inability of the state to tackle market failures and

its ability to exacerbate them; the tendency of the state to create market distortions, etc.

However, some other policies that yield economic ‘rent’ to groups that hold power would also succeed (Webster & Lai, 2003). Rent-seeking and principal-agent problems are closely related to the latter type (Tollison, 1982; Grossman & Hart, 1983). There is an economic tendency for all interest groups to promote their interest at the expense of others if the costs will not harm the groups’ economic interest in the foreseeable future (Tollison, 1982). The very nature of government and its various arms as a non-price distributor of property rights in cities makes it vulnerable to rent-seeking activity. Rent-seeking group use their position to create artificial income for themselves at the expense of other groups. Also, agents in charge of assigning resources overtly steal the principal’s resource. As long as the power relations that protect the beneficiaries remain intact, interventions that leak economic wealth are sustainable (Webster & Lai, 2003).

2.4.4.2 Sociological analysis of the local government

“Despite the clear importance of local government... there is no properly developed and generally accepted theory of the behavior and objectives of local government, or the ‘local state’ ” (Knox & Pinch, 2000: 156). In numerous literature of the local state, the managerialist view concludes that the local state is controlled by officials whose goal and values are crucial in determining policy outcomes. It is also argued that this approach does not give adequate recognition either to the influence of local elites and pressure groups or to the economic and political constraints by the national state – in another word, for whom or for what the functions of the state operate, whether they are

class-biased, and the extent to which they reflect external political forces (Duncan and Goodwin, 1982). In recent years, an increasing number of scholars have turned to Marxian theories of political economy to relate urban spatial structure to the institutions of urban society. Attention has more been focused on the structuralist and instrumentalist positions, both of which stem directly from Marxian theory and share certain views on the role of the local state (Knox & Pinch, 2000). The 'structuralist' view believes that the local state is an adjunct of the national state, with both acting in response to the prevailing balance of class forces within society. By using a case in London, Cockburn (1977) supports the Marxian structuralist view that the local state tends to safeguard the long-term interests of the dominant class as a relatively autonomous adjunct of the national state. The 'instrumentalist' view thinks that the local state is an instrument of the business élite, it largely derives from Miliband's work. Miliband (1969) emphasizes the significance of the class backgrounds of top decision-makers, presenting evidence to show that the social composition of senior positions which include the local governments is to ensure that the interests of capital will receive a sympathetic hearing.

2.4.4.2.1 Growth coalition and urban regime

Two influential concepts – "growth coalition" model and "urban regime" analysis – have been popularized to understand and interpret the urban development and redevelopment in contemporary North American cities (Logan and Molotch, 1984; Logan and Molotch, 1987; Molotch, 1993; Stone, 1989; Stone, 1993; Lauria, 1997; Elkin, 1987; Fainstein and Fainstein, 1983; Kirby, 1993; MacLeod and Goodwin, 1999; Zhu, 1999c and

Dowding, 2001).

Faced with the rapid decentralization of jobs and residents, and distant control of the economies, local governments lost a great deal of power and had to 'privatize' many of the functions and responsibilities that then once hold in previous phases. Local governments turned increasingly to the private sector for capital for economic and social investment through public-private partnerships and gave much greater priority to economic development than to the traditional service-based functions of the local state (Knox & Pinch, 2000). This is so-called 'growth coalition'. Defined as "partnerships of private- and public-sector interests that implement strategies to enhance the economic development of cities and regions, largely through attracting inward investment, mostly from the private sector but also from public funds"(Knox and Pinch, 2000: 408), growth coalition is also termed as civic boosterism or civic entrepreneurialism. Growth coalition has fostered a speculative and piecemeal approach to the management of cities, with a good deal of emphasis on master projects which are seen as having the greatest capacity to enhance property values and generate retail turnover and employment growth (Hall and Hubbard, 1996).

Regime theory attempts to examine how growth coalitions of different interest come together to achieve spatial outcomes in cities (Lauria, 1996; Feagin, 1997; Jonas and Wilson, 1999). The theory of urban regimes is essentially about the management of interest groups and the establishment of policies that reinforce cooperation and share out the benefits of growth. The relationships between actors in a given regime exist

within a set of prevailing system of formal government control and the nature of the resources mobilized business (Stone, 1989). It is crucial in regime theory that power does not flow automatically but should be actively acquired. City officials seek alliances that enhance their ability to achieve visible policy results. All these alliance constitute regimes for local economic and urban development. Regimes are becoming more and more complex with the study of 'locality', 'nimbyism', 'civic jingoism', etc. (Cox & Mair, 1988, 1991; Smyth, 1994; Boyle, 1997; Barlow, 1995; Molotch & Logan, 1984).

2.4.4.2.2 The developmental state in East Asian countries

Frequent intervention from the developmental state has long been discovered in East Asian countries (Evans, 1995; Haggard, 1990; Onis, 1991; White, 1988, Chan, Clark & Lam, 1998). Being a plan-rational economy with market-rational political institutions, the developmental state plays an active and strategic role in guiding market forces to achieve the goal of economic and urban growth (Zhu *et al.*, 2004).

The developmental state paradigm was based on the study of Japan, Korean and some other East Asian countries and emerged as an innovative theoretical alternative by elucidating the casual nexus between political institutions and economic performance. It was woven around three interrelated observations. First, the East Asian states place top priority on economic development operationalized in terms of growth, productivity, and competitiveness. Second, in order to achieve these broadly defined goals and preferences, the state actively intervenes in the market to guide, discipline, and coordinate the private sector through the strategic allocation of resources and the use of

diverse policy instruments. Finally, strategic intervention by the state and its success are ensured by rational and competent bureaucrats who are insulated from political and social pressures. Close cooperation between the state and the private sector, and the prevailing consensus on corporate goals, both of which result from a homogeneous social fabric and the Confucian culture, have minimized the risk of opportunism by individual utility-maximizing actors (Evans, 1995; Haggard, 1990; Onis, 1991; White, 1988).

Within the state, its structure is composed of several distinguishable dimensions: executive leadership, executive-bureaucratic nexus, intra-bureaucratic dynamics, and bureaucratic constituents. The cohesion, unity, and dominance of state structure depend on the combination of these dimensions. The East Asian developmental states were regarded to have functional links to their society – They are ‘institutionally embedded’ in their societies. Vertical command and discipline are matched with horizontal consultation and consensus through shared corporate goals, producing harmonious relations between the state and the private sector and enhancing the exchange of knowledge essential for economic performance. A multitude of intermediate organizations link government agencies and the private sector, including advisory councils, apex business associations, industry associations, varied public enterprises such as research associations and public finance institutions, as well as informal associations such as alumni societies and social clubs (Chan, Clark and Lam, 1998).

There also were criticisms which focus on a reductionist assumption of the state, incomplete and even misleading elucidation of state society links, and growing doubts about positive correlation between the state and economic performance. Bureaucratic agencies are not organizational islands, but are beholden to corresponding social groups and obliged to protect their interests and solicit their support (Calder, 1988; Doner, 1991; Kernell, 1991; Moon, 1988; Samuel, 1987). There is the “visible hand” omnipresent in urban redevelopment. Market forces work undeniably, but are tamed substantially by the state.

2.4.4.3 Changing role of the government in the transitional economy

“The rejection of private ownership of capital and of the means of production, including land, has been a central tenet of Marxist ideology” (Bertaud & Renaud, 1997:137). The land market in the centrally-planned economy is suppressed. Under the administrative-command economy, the absence of land prices eliminated the main incentive to recycle land by removing site value considerations from investment decisions. It has had a negative impact on the internal efficiency, productivity, environmental quality, and livability of the socialist city (Bertaud & Renaud, 1997).

Since 1990, urban laws and constitutional reforms promoting individual ownership and decisions have been enacted in Russia, as well as in other socialist countries (Bertaud & Renaud, 1997). Economic reforms introduce the land market. The new land price gradient arouses the interest of different actors for urban redevelopment and raises the efficiency of the socialist city. The emergence of markets and the opening to the world

economy are leading to major absolute and relative shifts in urban development and redevelopment behaviors.

2.4.4.3.1 Growth coalition and the local developmental state in transitional China

Situations are a little different in China. In the transitional China, economic decentralization has resulted in the decreasing capacity of the state and the emergence of developmental interest (Lin, 1999; Logan, 2002). It is widely cognized that the new institutions have structured the activity of urban (re)development in China (Naughton, 1995; Walder, 1995; Lin, 1997; Gaubatz, 1999; Zhu, 1999; Han, 2000). The imperative of economic growth has been highlighted by many China specialists as one of the decisive forces explaining the dynamics of Chinese urban development in the transitional economy (Chang, 1981; Lo, 1987; Cannon, 1990; Chan, 1992 and Pannell, 1990) and “urban regime”, “growth coalition” and “developmental state” have been widely deployed to explain the driving force of urban development and redevelopment in China (Zhu, 1999; Oi, 1996).

In the transitional phase, the forces of decentralization, marketization and political legitimization have transferred Chinese local governments into local states with a strong interest in development. They act in response to local prosperity but not as passive agents of the central government. China’s local governments are highly motivated to maximize revenues to support local growth and this makes them economic interest groups with their own policy agenda (Zhu, 2004). When the local developmental state is

under pressure to pursue development and urban growth, non-state owned developers – which hold the capital and thus lead the urban growth – often gain the upper-hand over the government in the negotiations for development.

2.5 Summary

Urban development is always regarded as a comprehensive process, in terms of strategies, interests and actions of the various actors involved in the development process, development stages, and different forces in shaping urban development. Theories to explain the complex process are constantly developed and tested. The neo-classical models and Marxist models, even when leaving aside their respective assumptions of human behavior and economic action, can be criticized on the way they deal with the institutional context. The new institutional economics analysis and the property rights approach are revealed in this review to be able to provide a tool to analyze the behaviors and interactions of actors in urban development and redevelopment process. Existing research also highlighted the role of the government. Some sociological views such as ‘growth coalition’ and ‘the local developmental state’ have already been applied to the studies of the transitional economies, for instance, transitional China.

Nevertheless, the unique patterns of land redevelopment under China’s transitional economy distinguish China’s practice from other western countries. Basing on the literature of property rights and institutions, this study will develop an alternative framework to analyze the land redevelopment in the emerging land market of the transitional China.

3 RESEARCH DESIGN

3.1 Case Study Approach

3.1.1 Case study as a research strategy

Research strategies are the ways of investigating an empirical topic by following a set of pre-specified procedures. There are several research strategies, which include experiment, survey, archival analysis, history and case study. Each strategy is a different way of collecting and analyzing empirical evidence (Yin, 2003).

Basically, select of research strategies is decided by the research questions. The essence of a case study has been defined by Schramm (1971: emphasis added) as that “it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result.” In general, case studies are the preferred strategy when “how” and “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context. The case study’s unique strength is its ability to deal with a full variety of evidence – documents, artifacts, interviews, and observations. The case study as a research strategy comprises an all-encompassing method – covering the logic of design, data collection techniques, and specific approaches to data analysis.

“The empirical sciences derive knowledge from direct experience based on the senses. Facts are accurately observed and reported” (Guy and Henneberry, 2002: 5). Through a review and description of an event with a clear clue of development and insight analysis,

case studies collect information of a typical example which represents the characteristics of many other similar cases. Especially for the study in the sociological field, case study observes in all respects and facets, and reveals both the internal connection and external influence. Merits of the case study approach make it widely adopted in research. Compared with the economic models of equilibrium, case study reveals insights which exist in the “blackbox” (Coase, 1992).

A common prejudice about case studies is that they provide little basis for scientific generalization. Actually, cases studies are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study does not represent a “sample”, and in doing a case study, the goal would be to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization) (Yin, 2003).

3.1.2 Land market in China as a special case

The land market is a local market. The spatial outcome of the land market is significantly influenced by the actions of key decision-makers and mediators such as landowners, developers, estate agents and housing managers, whose motivation and behavior effectively structure the supply of built environment. All these conditions differ from one area to another. Given the differences in socioeconomic and cultural contexts within which a land market operates, the institutional structure of a market is place- and time- specific (Ball, 1998). There is no general model for the provision of

urban built environment. That is the reason that case study approach is adopted for this research.

China is a huge country and comprehensive statistics of land development are not available. There are great disparities among the regions of China, owing to the different regional socioeconomic factors such as physical environment, politics and local economies. It is thus impossible to have a description on China's urban transformation both comprehensive with depth and representative across the country. But, under the same overall institutional environment, a case study can make contribution to a general profile of land redevelopment in China's metropolises.

Moreover, China's reform towards a market system is a gradual process, and there appears a series of intermediate forms of institutions. The reform process is in a non-standard unstable format. But, such process may advance to patterns. As comprehensive statistics of land development are not available, quantitative methods could hardly be adopted for this research. Instead, case studies could record relevant events and thus find out the patterns of institutional changes.

3.2 Choice of Study Area

Guangzhou

This research chooses the case of Jinhua³, a typical built-up area located in Guangzhou central city which has gone through urban renewal since the 1980s.

³ *Jiedao* (street community) is the township level division in urban area of the People's Republic of China. It is an administrative cell for the state to organize the social life within a city. An urban district is administratively divided to several *Jiedaos* to deliver governance and social welfare.

Guangzhou is the ‘southern gateway’ of China. As an ancient civilized city, Guangzhou has a history of over 2000 years. Lying at the tip of Pearl River Delta (PRD) and the confluence of Dong River and North River, Guangzhou possesses exceptional advantage in geographic location. In Guangzhou, the place remaking for an international metropolitan city is trying to create a new vision of old downtowns by large scaled redevelopment projects (Xu & Yeh, 2003). Guangzhou’s importance in the national development and its typicality in the China’s redevelopment of urban built environment since the economic reform make it chosen for this research.



Figure 3.1 Location of Guangzhou and its Main Administrative Districts

(Xu & Yeh, 2003: 362)

Guangzhou's location in south China has uniquely important political-economic and social-cultural implications. Being one of the cities that first been designated open to "market", Guangzhou's development has been "one step ahead of China" for a long period (Vogel, 1989; Xu & Yeh, 2003). The city has benefited from preferential policies, e.g., the most relaxed financial policy and the first locations set aside for foreign trade (Fan, 1995). The economy of Guangzhou has grown very rapidly since the reforms. When marketization of urban land has been carried out to replace previous free allocation of land assets, the gradual and incremental nature of the urban reform has cast intriguing impact on the forms of urban development and redevelopment.

Facing the rapid changing environment, Guangzhou adapts its strategies for urban development and redevelopment. Land redevelopment has been carried out in Guangzhou in the 1980s and accelerating since 1990. During the period from 1992 to 1999, 4481.7 hectares of land in central areas (Dongshan, Yuexiu, Liwan and Haizhu Districts) of Guangzhou has been provided to the land market for redevelopment (Li, 2002). Housing development in urban areas offers a clue for the rapid land redevelopment (see Table 3.1). Urban spatial structure in central areas has been under major transformation.

Table 3.1 Housing Development in Urban Districts⁴ of Guangzhou

Period	50-52	52-57	58-62	63-65	65-70	70-75	76-80	81-85	86-90	91-95	95-2000
Investment(¥ million)	7.07	61.4	61.15	49.1	59.38	97.18	478.84	2973.25	7583.74	39316.49	97912.54
Floorarea Completed (thousand m ²)	99	997	1053	609	1164	1192	3993	14517	17671	25567	43669

(GSB, 2003: 108)

⁴ Urban districts of Guangzhou refer to Yuexiu, Dongshan, Haizhu, Liwan, Tianhe, Baiyun, Whampoa, Fangchun.

Jinhuajie

Nowadays, with a population of 9.94 million in 2000, Guangzhou Municipality covers an area of 7434 km². It is made up of by two county-level cities and ten city districts. To get insight of the function of land redevelopment in Guangzhou, a small area is needed to elaborate the details. A Street Community (*jiedao*) named Jinhuajie (see Figure 3.2) with an area about 44 ha in Guangzhou central city is chosen for an intensive investigation.

Jinhuajie *jiedao* is a Street Community (*jiedao*) in Liwan District, which has long been the urban commercial and service centre of Guangzhou city. The territory of Liwan District was once named as “Xiguan”, where quays of Guangzhou port were located. Trade and business were flourishing in this area. This tradition was suppressed during the period from 1949 to 1979 by the development of factories when industry development was emphasized in every city in China. Several factories have been provided in the western part of Jinhuajie during this period. Since the economic reform, Liwan District gained back its superiority in business and service with the fast developing tertiary sector. Comprehensive large-scale redevelopment projects in Jinhuajie carried out since the late 1980s are the pilot urban redevelopment projects in Guangzhou. Residents, state subordinated REDCs, foreign developers and private developers have all been involved in those projects. Twenty years’ urban renewal offers an opportunity to study the evolution of the way how land redevelopment is carried out. Later in the 1990s, factories in Jinhuajie began to move out the central area and this process made Jinhuajie a typical area of the redevelopment of SOEs land. Due to the

above reasons, the examination of Jinhuejie *jiedao*'s urban redevelopment can thus shed light on the urban redevelopment issues and problems in the city of Guangzhou and other Chinese cities. This research covers the period from 1980 to current, during which urban redevelopment of Jinhua jie underwent the transition of central-planned control to market-led.

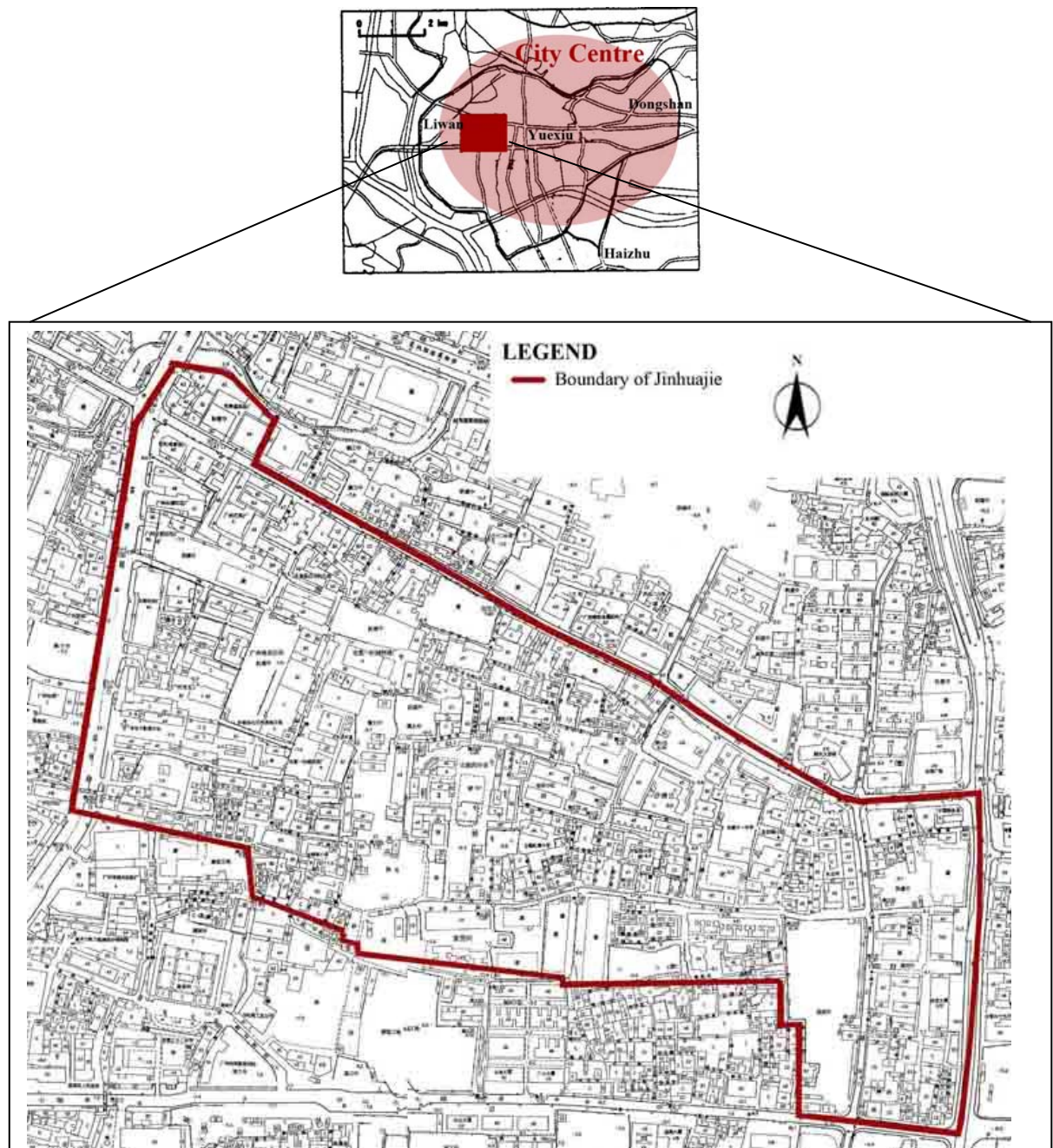


Figure 3.2 Location of the Study Area – Jinhua jie

Source: files in GUPB, accessed on July 8, 2004

3.3 Data Collection

In Guangzhou, as this case study characterizes the pattern of property rights in the land market, roles of different actors and interdependent relationships between each other are to be discovered. Various forms of both quantitative and qualitative materials are used. Four sources of evidence are used in data collection for case studies: documentation, archival records, interviews and direct observation. In Guangzhou, archives and interviews are more important as second-hand materials are limited or not so reliable.

3.3.1 Yearbooks

Three kinds of yearbooks are used as the data sources of urban development of Guangzhou in different stages. Guangzhou Yearbook has been published ever since 1983 and offers an overall idea of the economic and social development in Guangzhou since the reform began. Based on this, Guangzhou Statistics Yearbook fills in data to support the description in Guangzhou Yearbooks. Furthermore, Guangzhou Construction Yearbook, which was firstly published in 1996, specially focus on the urban planning control and real estate development. Construction Yearbooks offer an insight of the institutions for urban development in Guangzhou.

3.3.2 Government authorities records

In China, Urban Planning Bureau (UPB), Land Resource and Housing Bureau (LRHB), and Construction Bureau (CB) control the urban development throughout the urban and rural area officially. Records in these departments are thus of great importance in discovering the inner institution of urban development and redevelopment in

Guangzhou.

The records of Planning Permission and Land Use Approval have been found in the Division of Land Use Control in both UPB and LRHB of Guangzhou municipality.

Record of Issue of Planning Permission (UPB, archive)

Record of Land Acquisition (UPB, archive)

Record of Issue of Land Use Approval (LRHB, archive)

Record of Urban Redevelopment Project of Jinhuaqie (CB of Liwan District, archive)

3.3.3 Maps and charts

Relief maps at 1982 and present are available in Guangzhou Urban Planning & Design Survey Research Institute, and aerial maps and charts for current situation are offered by LRHB. On the relief and aerial maps, change of urban built environment can easily be detected. Unfortunately, self-funded conservation of old houses, which might include some conversion of land uses is very difficult to detect as they are listed neither in records of UPB or LRHB nor the relief or aerial maps. However, all the change, which is big enough to show difference in maps is studied carefully, the discrepancy is thus very small. Furthermore, the interpretation of maps is assisted with the record for land use permissions and approvals.

3.3.4 Laws, policies and urban plans

Although laws, policies and urban plans are not always completely executed, they set the framework and limitation for urban development and redevelopment. Data of the

standard of compensation for resettlement during urban redevelopment and parameters of planning control over development have been collected and listed as follows. Such standard and plans set the boundary for actors' behavior.

“Measures of Land Acquisition and Urban Demolition and Resettlement in Guangzhou” (1984)

“Guidelines to Implementation of Urban Demolition and Resettlement in Guangzhou” (1992)

“Temporary Regulations for the Allocation of Guangzhou Land Revenue” (1992)

“Notice on reduce of land leasing payment of state-owned enterprises” (1995)

“Notice on enhancing the management of land conveyance prices in Guangzhou” (1997)

“Regulations of Urban Demolition and Resettlement in Guangzhou” (1997)

“Temporary regulations on management of administratively allocated land during SOE reforms” (1998)

“Management Measures of Urban Housing Demolishment in Guangzhou” (2004).

Plans, which set the target for urban development of each period, offer much useful information including land acquisition data, urban built environment situation in each period. Only plans related to the study area have been carefully studied:

Plan for Renewal and Conservation of the Areas along Kangwang Rd. (Guangzhou Urban Plan & Design Service of Automation Centre & College of Civil Engineering & Architecture, Wuhan University of Technology, 2003)

Urban Design for the Areas along Zhongshan Rd. (Guangzhou Planning Automatic

Centre, 2001)

Plan for Conservation of Ximenkou Area (Guangzhou Planning Automatic Centre, 2001)

Innovation Plan for Guangzhou Central Areas – Liwan (L01) District Plan

(Guangzhou Urban Plan & Design Service of Automation Centre, 1998)

Guidance for Planning Control over Liwan District (Guangzhou Urban Planning Bureau

& Guangzhou Urban Plan Research Centre, 2003)

Urban Plan for Guangzhou City (UPB, 1984)

Urban Planning for Jinhuaqie (Guangzhou Urban Planning Bureau, 1983) in GUPB eds.

Collection of Planning for Blocks in Guangzhou

3.3.5 Interviews and observations

Besides the fact that records and data in government authorities are fragmental and sometimes not continuous, many ‘illegal’ developments are not shown in these authority records. Observation and interviews are thus used to fill up the gap between the fact and records (see Appendix I). On-spot study has been taken for several times and the current situation of urban built environment was discovered. To find out the institutions behind the urban development, interviews are taken with planners, officials, scholars, residents, staff in People’s Congress, etc. Simple enquiries for information of urban environment changes are also done constantly throughout the process of visiting to the study area. Much useful information is gained from consulted unknown residents, workers, officials to whom the author would like to show her acknowledgement.

3.4 Theoretical Framework

“A series of distinctive new urban landscapes is emerging from a socio-spatial dialectic dominated by the effects of the reconfiguration of economic and cultural life” (Knox, 1991: 203). Change of landscapes in Chinese cities is structured by a series of institutional changes. Land redevelopment is characterized by the conflicts and balance between actors under formal and informal institutions. Based on the literature review, and objectives of this research, an analytical framework is developed here to discover the institutional changes and their impact on land redevelopment in transitional China via a property rights approach.

3.4.1 Basic Framework

Shown in Figure 3.3, the three development eras, which include the centrally planned economy era, the transitional economy era and the market economy era, represent the time dimension of China’s land redevelopment. These three eras signify China’s unique pattern of economic transition from the centrally-planned system to a socialist market. In particular, the intermediate era in the transition, which is what China is currently experiencing, is the key step in which institutional changes occur and are imposed on the land development process in Chinese cities.

A three-level hierarchy is introduced to mark out the main components in the land redevelopment in transitional China: the institutions, the actors in land redevelopment process and the spatial outcomes— built environment. The three components stand for the rules of the game, the game players and the results. The land redevelopment process

acts as the link between the institutions and the urban built environment and is the key to decode the mechanisms of land redevelopment under the context of institutional change in China's transitional economy. Institutions are the rules of the game and they are humanly created to constraint human's interaction. Functions of institutions are realized through the structuring of actors' property rights over land in the land market for land redevelopment (Webster & Lai, 2003). On the one hand, powers and interests of actors show the property rights over land, and institutional changes evolve along the process of interactions among the actors. On the other hand, property rights over land would impose constraints on the behaviors of actors in land redevelopment process and thus decide the outcomes of land redevelopment.

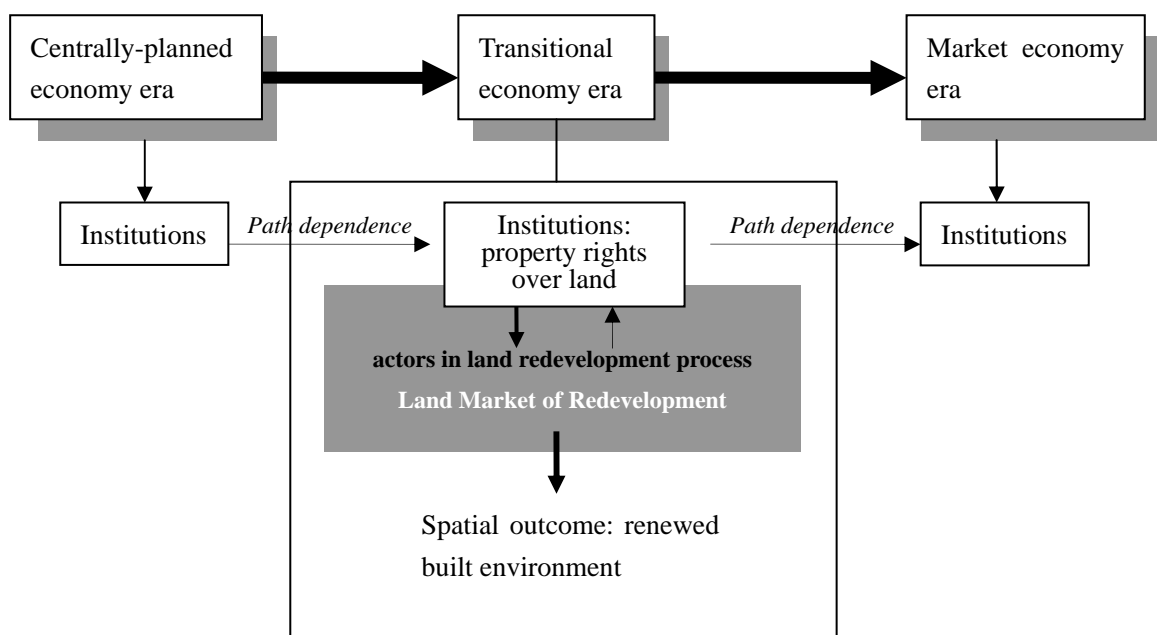


Figure 3.3 Basic Analysis Framework

According to the theory of institutional changes, institutions in one era are influenced by those counterparts through a series of events and junctures in the previous one

(North, 1990). Path dependence mechanisms are the tool to explore the institutional changes in the transitional land markets. The economic reform is started from the economic system with institutions which distort building provision with poor incentives. Gradually it moves into a relatively efficient socialist market system. The special institutional changes structure property rights over land to experience a series of events and junctures during the transition. The property rights over land in the transitional economy are thus somehow determined by the property rights in the centrally-planned system, and the existing property rights may counteract the new institutions in the transitional era.

3.4.2 “Redevelopment process” module

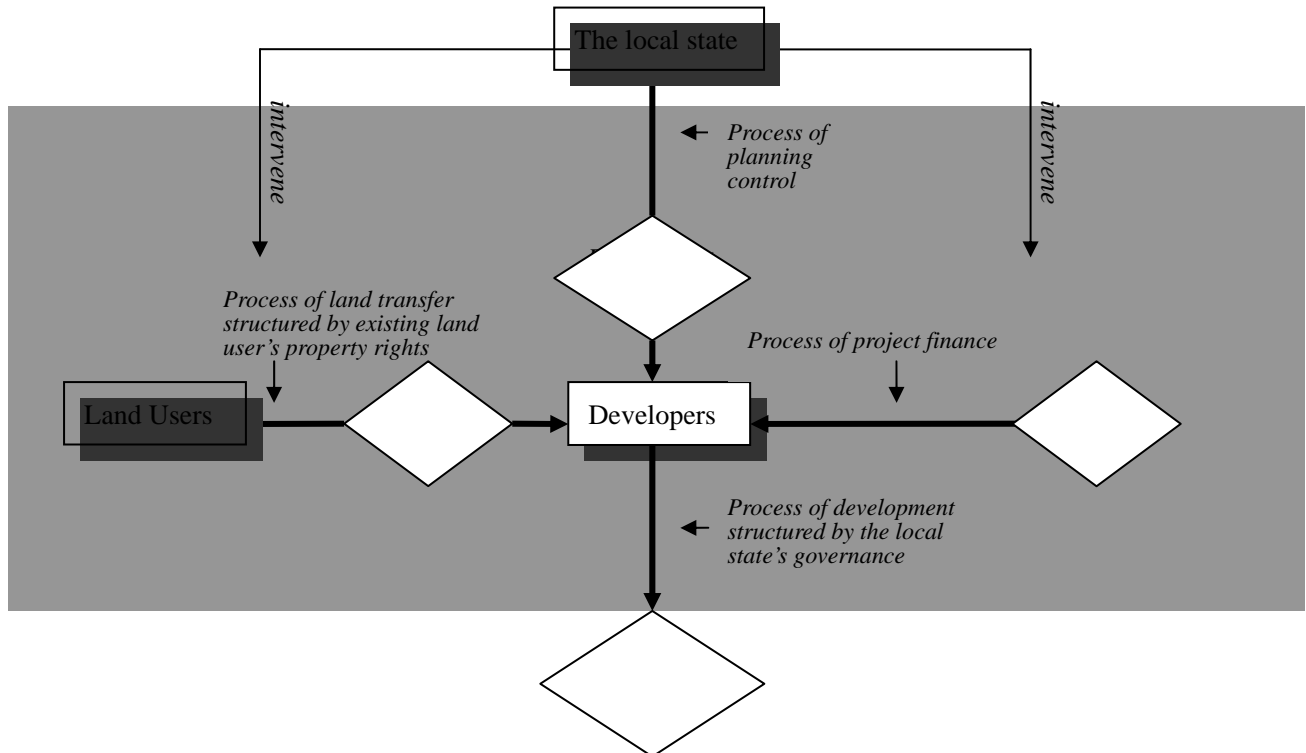


Figure 3.4 Main Actors and Land Redevelopment Process

This research aims at discovering the pattern of institutional changes for land

redevelopment in transitional China by tracking the evolution of actor's property rights. Zooming into the emerging land market of the transitional economy era, the structure of property rights over land and the evolution of property rights is studied by looking into the roles of different actors in the land redevelopment process (see Figure 3.4).

A variety of actors with different roles and interests in the land and property development process have come into play. Three actors have been highlighted in the redevelopment process — the local state, the land users and developers. Based on the study of actor models of development process, developers are placed as the centre of the redevelopment function diagram since they arrange and carry out the redevelopment projects (Maclaran, 1993). Developers' relationships with other actors have been generalized to four sub-processes which include the processes of land transfer, planning control, project finance and development.

The local government plays a dominant role in land redevelopment process. Economic decentralization in China since 1978 has resulted in decentralization of the power of economic decision-making. With the reforms, commoditization and marketization of urban land have been introduced to replace the free allocation of land in all Chinese cities. After 30 years' practice of free allocation as a socialist production means, urban land has been restored as an economic asset which could deliver large amount of revenue to the local government. Promoted by the emerging developmental interests, the local state plays the most important role in land redevelopment process by

intervening into various sub-processes of land redevelopment. The local governments of Chinese cities advocate land redevelopment to pursue the land revenue in the locality and pursue political achievement (Oi, 1996; Zhu, 1999). The local government not only formulates development directions and set up rules and regulations, but also actively participates in development projects by defining the property rights of the actors. Land redevelopment in transitional China is thus more dependent on state involvement and even dominated by the government.

In addition, in the land redevelopment process, land users are not passive and they pursue their own interests based on their property rights. Nominally owned by the state, land in Chinese cities is actually used and controlled by land users. Land users include the residents and *danweis*⁵ which include state-owned enterprises (SOEs) and statutory organizations. During the central-planning era, land was administratively allocated to the land users without any land rent or time limit. As what has been emphasized by Marcuse, “in socialist systems, the right of use ...even if referred to as ‘tenancy’, equaled or exceeded in many ways those conventionally associated with ‘ownership’” (1996: 135). Due to gradualism prevailing during the transition, the existing land users have a vested interest for bargaining in land redevelopment process. The land redevelopment is thus carried out and evolves with the interaction of various actors, structuring by the actor’s evolving property rights.

⁵ “*Danwei* refers to a variety of state-owned enterprises, non-profit institutes and governmental bureaus where most urban residents were employed during China’s centralized system. A *danwei* was a work unit that has such attributes as personnel administration, communal facilities, urban or non-agricultural purview and public sector. It was an instrument with which the government exerts political and social controls over citizens and it was also a provider through which the state distributes socialist ‘welfare’ to workers” (Zhu, 2004: 1249).

3.5 Summary

This chapter presents the research approach, study area, study period, data collection and research framework. Under the context of China's transitional economy, case study approach is adopted to provide an in-depth analysis of institutional change. While based on China's overall context, this study chooses the redevelopment of a typical central area of Guangzhou, i.e. Jinhuaajie – as the case. The case study approach is not aiming at to find out a place which could represent the overall situation of redevelopment in Chinese cities, but to offer a base for in-sight investigation. Four sources of evidence are used in data collection for this case study: yearbooks, government authorities records, maps and charts, policies and urban plans, and interviews and observations.

The analytical framework developed above provides the base to discover the institutional changes and their impact on land redevelopment in transitional China via a property rights approach. A three-level hierarchy is introduced to mark out the main components in the land redevelopment in transitional China: the institutions, the actors in land redevelopment process and the spatial outcomes– built environment. Three actors have been highlighted in the redevelopment process — the local state, the land users and developers. Developers' relationships with other actors have been generalized to four sub-processes which include the processes of land transfer, planning control, project finance and development. This study is to discover the institutional changes by studying the interaction among actors during the four processes.

Based on above theoretical framework, a detail case study is provided to scrutinize the

land redevelopment process, so as to track the changing land redevelopment behaviors and evolving property rights over land.

4 BACKGROUND OF REDEVELOPMENT: NEW LOCAL DEVELOPMENT INTERESTS IN GUANGZHOU

4.1 Introduction

This chapter provides the background and impetus of the land redevelopment in Guangzhou. Since 1978, a series of reforms have been initiated by the government towards the socialist market mechanisms. With the reforms, local development interests are aroused and the local government advocates redevelopment to chase the land revenue and political performance. However, changes in the power of decision-making and land revenue collection were carried out within the old system which formerly played a pivotal role in the central planning system. The old institutions have a vested interest in maintaining the *status quo* and are in a strong bargaining position to influence institutional changes (Zhu, 2005). Land users, who have been endowed with strong land use rights, are keen to maximize their profit during the redevelopment process. Due to the disparity between the interests of the local developmental state and the existing land users, gradual institutional changes for land redevelopment in transitional China have been generated.

Reforms which generate the local interest of land redevelopment are examined in terms of historical order: 1949-1978, 1979-1987 and after 1988 in this Chapter. In each section, emphases of analyses are placed on the political and economic environment.

4.2 Old Institutions (1949 – 1978)

4.2.1 Centrally-planned administration system

Following the example of USSR, a completely centrally-planned system for resource allocation was set up in 1949 and last for 30 years till 1978. China's local administrative system was multi-layered and complex and might appear to an outsider as inherently contradictory. It was an administrative system which pervades urban and rural society, a system born of imperial roots, shaped by Stalinist goals of social control. It was highly centralized and extended throughout every aspect of Chinese social life. In its formal structure, urban administration in China comprised of a nested hierarchy, in essence forming a governmental pyramid. At the pinnacle was the central government; below was a stratum of provincial and municipal governments. Then the administration system was divided into districts; in cities there were in turn subdivided into street communities (*Jiedao*⁶) and community committees (*Juweihui*). Through this nested hierarchy, the Chinese governmental structure extended continuously from the central government down to the level of the household.

This hierarchy of units constitutes not all the administration system. In the practical exercise of urban governance, it works in combination with other organizational structures. The most important one was the line agencies from central government ministries, which form a 'vertical axis' of administration to complement the 'horizontal axis' of the territorial structure. *Daiwei* under the supervision of central government

⁶ *Jiedao* is an administrative cell for the state to organize the social life within a city. Generally, one district is composed by several *jiedao* and one *jiedao* is composed by several *juwei*, which is the smallest administrative units for the state to control and manage the urban citizens.

ministries undertook both production and reproduction activities (Wu, 1998). “*Danwei* refers to a variety of state-owned enterprises, non-profit institutes and governmental bureaus where most urban residents were employed during China’s centralized system. A *danwei* was a work unit that has such attributes as personnel administration, communal facilities, urban or non-agricultural purview and public sector. It was an instrument with which the government exerts political and social controls over citizens and it was also a provider through which the state distributes socialist ‘welfare’ to workers” (Zhu, 2004: 1249). What thus emerged was an institutional structure which allowed for firm hierarchical links when necessary, yet wide latitude of personal discretion at lower levels of practice.

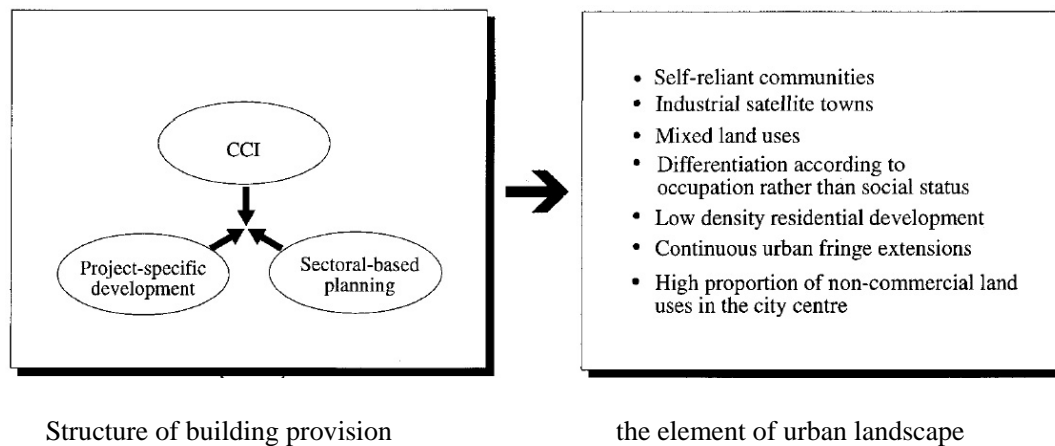
Being located at a peripheral level, the local government was not encouraged to organize collective consumption at a municipal level. In fact, the homogeneous distribution of economical production (reproduction) and non-separated social classes were intervening (Wu, 1995). The vertical linkage between supervisory departments and subordinate enterprises made it impossible for the municipality to finance for unified urban development. Furthermore, the municipality was required to provide urban infrastructure and public facilities for the state projects. This resulted in bargaining for investment between the central and local state when a state project was to be allocated.

4.2.2 Land allocation and use

Under the socialist centrally controlled system, property rights over resources were

nationalized. Throughout China, “the state determined the allocation and utilization of resources through directives, rather than by pricing mechanisms” (Zhu, 2002: 43). The fact that urban development took place in a period when land was nationalized and administratively allocated rather than sold in an open market for a price had a very profound impact on the internal organization of Chinese cities.

One of the outcomes was the pattern of land use and resource allocation to the development of built environment. Administrative decisions based on “needs” and norms had so far governed the use and quantity of land consumed. Land was administratively transferred to the land user by the state. No land rent and time limit were required but the land user was not allowed to transact or transfer his land use right. In the meantime, almost all revenues were remitted to the central treasury department and then transferred back to local governments and industrial firms according to expenditures planned by the government (Zhu, 2002). It was the vertical hierarchy that the supervisory departments allocated investment and funds to the SOEs. By allocating capital construction investment (CCI), the government set up a project-specific method of development organisation and a planning system based on economic sectors (see Figure 4.1).



Source: Wu, 1998

Figure 4.1 Building Provision in Pre-reform Era

The absence of land prices removed all incentives to redevelopment of the built-up areas, which resulted in a land use freeze. Once land was allocated, it was almost never recycled. Without price signals, it was administratively simpler to respond to current land demand pressure by developing at the periphery than to redevelop well-located areas with obsolete land uses. While the city expanded outward, land use in already developed areas remained unchanged. Urban development was thus getting into a wicked cycle of acquisition of agricultural land and wasteful industrial development. Development of urban land followed the steps of: expansion of industrial land – residential use filling in – commercial and service facilities equipping (Wu, 1990). This pattern of land use brought fragmental urban land and sizable enclaves of “fallow” or “dead land”.

4.2.3 Industrial development

At the beginning of the People’s Republic of China, the dominance of industrial planning was emphasized by the government and the chief target of social production

was to transform China from an agricultural country to industrial one, and from new democratic country to socialistic one (Central Finance and Economics Office of China, 1999). Industries were located as they pleased in the centre of the city. Performance of housing was measured by its ability to reduce input costs while meeting quantitative production targets. SOEs thus exist to closely connect workers' personal life with industrial production within each work unit. Some work units are produced as self-reliant communities with mixed residential and industrial use. Inevitably, SOEs who occupied the urban land were likely to maximize their own utility within the limitation of existing institutional matrix, which may not accord with the interests of the state (Jensen and Meckling, 1976).

At the end of 1950s, Guangzhou was made the “central industrial base of South China” (Xu & Yeh, 2003: 363). All resources were allocated to support industrial development. After 30 years of industrial development, the commercial sector of Guangzhou withered in the closed centrally-planned economy. The tertiary sector accounted for a proportionately less and less share in GDP from 49% in 1952 to 30% in 1978 (Guangzhou Statistical Bureau, 1998: 23).

4.3 Generating Local Development Interests (1978-1987)

4.3.1 Economic reforms: decentralization of economic decision-making and emergence of local interests

In the 1970s, severe fiscal deficit was experienced by the local government in carrying out urban development. “The legitimacy of the party leadership was in jeopardy. Economic growth seemed the only goal able to appeal to a people who had suffered

class struggle and proletariat dictatorship for many years” (Zhu, 2004b: 428). Economic reforms were thus initiated to restructure the administrative and financial relationships between central and local governments.

With the initiation of economic reforms, economic decision-making was decentralized. Administrative power was granted to local governments such as power of examination and approval of fixed asset investment projects; power of foreign trade and exchange administration; power of price control; power of distribution; power of visa notification; power of payroll adjustment, etc. Administrative decentralization has significantly decreased the direct control of the central government on local development (Leaf, 1995). It gave decision-making power to agents (local governments and SOEs) who began to pursue their own interests (Pryor, 1973; Reeve, 1986; Zhu, 2002). Particularly, the central government also granted preferential policies offering more power of economic management to open coastal cities such as Guangzhou. However, administrative decentralization generated not only greater autonomy but also greater responsibility to the local governments as slow growth would represent a less capable government (Han, 2000). The local governments were thus pushed to pursue high growth rate for better “political and economical performance”.

Administrative decentralization was associated with the provision of fiscal incentives. Incentives of development, used to be political, were gradually becoming economic (Zhu, 2002). Starting in 1980, the “fiscal contracting system” replaced the previous

system of central collection and allocation of development revenues. Local governments entered into long-term (usually 5 year) fiscal contracts with higher level governments, and were allowed to retain most revenues. In addition, local governments also received “extra-budgetary funds”⁷ (yushuanwai shouru), which were not subject to sharing with the central state. The scope of local “extra-budgetary funds”, which were mainly used to construct projects initiated by local state, had expanded the economic basis of local governments (Blecher, 1991). As the local governments gained autonomy in revenue mobilization, they were keen to initiate more development projects to generate “extra-budgetary funds” and retain most the revenues at local levels to the detriment of central finance. The force of decentralization of the administrative and economic decision-making had transferred China’s local governments into local states with a strong interest in development and active actors responsible for local prosperity (Zhu, 2004b).

4.3.2 Economic Restructuring

The “open door” policy brought Guangzhou a new opportunity to gain back its role as the commercial centre and southern gateway of China. In 1984, Guangzhou was designated as one of the 14 coastal open cities. Aiming at “developing the city into the economic centre in southern China that was distinguished by its prosperity, civilization, stability and good environment” (The Editorial Board of Guangzhou History, 1995: 45), economic development of Guangzhou stepped into a new era. The economic reforms had liberalized the constraint on the development of tertiary sectors (Wu & Yeh, 1997;

⁷ Extra-budgetary funds consist of tax surcharges and user fees levied by the local government’s agencies as well as earnings from SOEs (Qian, 1999).

Xu & Yeh, 2003). Quickly, the contribution of tertiary sector to GDP rose to 37.4% in 1985 (see Table 4.1). Light industries in Guangzhou also witnessed a rapid growth because of the opening up to foreign investment.

Table 4.1 GDP and Tertiary Sector Growth of Guangzhou (million Yuan)

Year	1975	1978	1980	1985	1990	1995	2000	2002
GDP	3663.51	4309.47	5754.97	12436.23	31959.52	124306.97	237591.29	300147.60
Tertiary sector	946.82	1281.81	1993.25	4650.44	15756.89	58941.46	124949.47	167126.93
% of GDP*	25.8	29.7	34.6	37.4	49.3	47.4	52.6	55.7

*: value-added by the tertiary sector as % of GDP

Source: GSB, 2003

With the development of tertiary sectors and prosperity of the economy, the investment sources were diversified (Wu, 1998). Urban development was now largely supported by local ‘self-raised fund’ (SRF⁸) which runs out of the state CCI system. The fund raiser – usually local governments and enterprises – could decide the allocation of SRF beyond the central plan. The emergence of SRF broke the traditional budgetary control over development and investment. In 1978, the state budget accounted for 62.2 percent of the total investment in fixed assets. In 1992, SRF accounted for 51.2 per cent of the total investment in fixed assets, whereas only 4.3 percent came from state investment throughout the whole country (State Statistics Bureau, 1992). The changes in investment structure in Guangzhou represent a typical case. State investment has been losing its dominant status ever since 1978. SRF became the main investment source in the structure of investment ever since the middle 1980s. In the meantime, although foreign investment was allowed to enter China since the economic reforms started in 1978, it was excluded from property development in Guangzhou until 1991. With SRF,

⁸ Self-raised funds refer to “funds received by construction enterprises from their responsible institutes, local governments, and within enterprises of the purpose of investment in fixed assets” (State Statistical Bureau, 1996: 197). Use of self-raise funds is not included in the central economic plan.

government intended to nurture the urban development under local government-enterprise coalitions (Zhu, 1999).

Economic growth of Guangzhou has further accelerated since the 1992 symbolic tour to southern China by Deng Xiaoping. One can have a clue of the economic development through the GDP growth (see Table 4.1). In 2000, the GDP of Guangzhou reached US\$ 30.3 billion. The tertiary sector became the main driving force of the city's economy (Xu & Yeh, 2003). Economic growth and restructuring, together with improvement of living standards, have created great pressure on the demand for urban development.

4.3.3 Housing commoditization and REDCs

During the 1980s, the problems of public-sector-dominated housing system such as housing shortage, insufficient investment, unfair distribution, the low rent system and poor management became a major topic of discussion (Wang & Murie, 1996). The government began to search for new ways of housing provision. "Housing commoditization" (*Zhufang shangpinhua*) had been gradually introduced to China since 1982 to reduce the heavy burden of building provision by the state and establishing an equitable and efficient housing system (Lin, 1986). Regarding to the housing commoditization scheme practiced in several cities for testing, initially, individuals paid one-third of the construction costs for a residential unit, with the government and the buyer's work-unit each paying an equal share of the outstanding balance (Wu & Yeh, 1997). The money paid by the individual was collected by the state and then invested in new housing projects. Further more, the allocation of actual housing units by SOEs was

gradually to be displaced by housing allowance to the salary (*huobifenfang*).

Housing provision was also trying to change to the market supply and professional developers were invited into the domain of urban development. In 1984, State Council issued “Temporary Regulations Involving Systemic Reform of the Administration of the Construction Industry” which directed that “urban real estate development companies (REDCs) should be formed to carry out the comprehensive development of urban land and housing” and these REDCs would act as business enterprises largely responsible for their profits and losses (World Bank, 1993). Since then, many real estate development companies were established in Guangzhou under the supervision of different levels of government or industrial groups. Housing provision was no longer the obligation of government and *danweis*. Housing commodification stimulated both the housing demand and supply and provided the base for urban land reforms.

4.4 Generating Local Development Interests (1988 – Present)

4.4.1 Urban reform: paid land transfer

In the later 1980s, the urban reform was initiated as a general umbrella under which comprehensive, nevertheless gradual, changes were initiated to install market-based, competitive mechanisms for resource allocation to the process of urbanisation, in parallel with the replacement of comprehensive and direct state involvement by interventions via indirect levers such as taxes, subsidies and macroeconomic policy tools (Zhu, 2002). Initiation of urban reforms was as a turning point of China’s urban development and redevelopment.

At the core of urban reforms was separation of land use rights from the land ownership (Hu, 1995). In 1988, the Seventh People's Congress amended Clause 4 of Article 10 of the constitution and for the first time made the paid transfer of land use rights official. Paid transfer of land use rights is equivalent to land leasing as exclusive rights to use land, to derive income from land and to transfer land are granted to the land user within a period (Cheung, 1982; Lai, 1995). Public land leasing by auction, tender and negotiation has been legalized so that urban land can be leased to developers or users for a fixed period after a payment of rent in a lump sum to the state (Xu, 2001; Zhu, 2004a). Land has become a commodity. The rediscovery of the value of urban land has led to spatial restructuring in the central areas in the pursuit of maximum land use efficiency (Yeh & Wu, 1996).

4.4.2 Emergence of the local developmental state

Urban reform also stipulated that the state – which in reality was the local municipality for each city – monopolized the land leasing (Wu, 1998). The municipality acted as the legal authority of the urban development through the operation of land markets. Unified land acquisition by the municipal government was initiated. There is a trend for the government towards the redevelopment interests because:

1. There is the pursuit of local economic growth measured by increases in GDP as political achievement and urban development contribute a lot in GDP growth (Oi, 1996; Zhu, 1999);
2. There is a commitment to enhancing non-economic social provisions as the

governments have to seek the collaboration of the residents by meeting their requirement of living environment;

3. Going beyond the concepts of economic growth and physical provisions, there are various concern of environmental protection and land conservation to create a world-class city with international standard to stand the regional and national competitions (Li, 1995; Dai, 1996; Xu, 2001).

4. The new entrepreneurial class emerging since the economic reform is playing an extremely significant role in the economic and requiring urban restructuring for further economic growth.

To facilitate the realization of such a comprehensive goal, the government advocates urban redevelopment and turns to a “socialist developmental state” (Oi, 1996; Zhu, 2004b).

As the land leasing became a critical revenue source for the capital-hungry local government, the local government was keen on leasing out as much land as possible to generate revenues for infrastructure construction. The area with issued Planning Permission far exceeded the actual land developed. Oversupply of land by the local government aggravated the oversupply of real estate. From July 1992 to June 1998, Guangzhou Urban Planning Bureau issued 2208 Planning Permissions (covering a total area of 60.2 km²) for real estate development projects. However, there were only 765 Land Use Notes⁹ issued by Land Resource and Housing Bureau, covering a total area of

⁹ Issue of Land Use Note means the developer has reached all of the requirement and got enough finance support. In another word, the development is ready to be carried out.

9.3 km² (Li, 2002). In other words, less than 16% of land plots supplied to the real estate market were actually developed. By the end of 1993, the land leased by the municipality has reached almost 30 million square meters, which could supply over 60 million m² housing space according to the average plot ratio – 2. Based on the current amount of annual completed floor space (8 million m²/ year) and rate of sale (50%), these apartments could be sold over 14 years (Zheng, 2001). Adjustment for urban development thus began in 1997 in Guangzhou. A series of adjustment policies in planning control and contraction of monetary supply were implemented to reorganize the real estate market.

Most of the land has been leased by negotiation. It is because the land revenues should be distributed between the central and municipal government. For example, regulation on management of land profit in Guangzhou requires that 5% of land leasing payment must be handed over to the central government and 10% must be handed over to the provincial government (GLRHB, 1997). As a fixed portion of the land leasing payment had to be handed over to the central and provincial government, the municipal government would lease the land by negotiation through which the land leasing payment was reduced as the exchange of other local benefits. Contrary to the prosperity of the negotiation for land leasing, it was not until 1997 that Guangzhou municipality started to lease land by bidding and the first land auction was initiated in 1998 (Li, 2002).

Although the local municipality monopolizes the land leasing, it does not control all land transfers. Large amount of land is occupied by SOEs and statutory institution users, which acquire land on an administration/free allocation basis. Based on the socialist land use system in China, the government could hardly retrieve the land from existing land users. It was not until the SOE reforms that SOEs started to relocate to urban periphery and redevelop the land they occupied.

4.4.3 SOE reforms

When it came to the 1990s and the economic problem of SOEs aggravated, the state finally declared that “the aim of the institution reform is to construct a socialistic market” (14th people’s congress, 1992) and structure of industry was under adjusting. In 1996, the issue of “Plan to optimize the capital structure of SOEs” drew up the curtain of the reorganization of industries in Guangzhou. Relocation of industry coexists with SOE reform. Reform of SOE assets evolves to two categories:

- a. ***consolidation within trades/ groups***. It means that companies with better financial situation consolidate those factories which could hardly maintain production. The land used by the consolidated factories will be released to the land market. The income from land leasing will pay for the consolidation and settlement of workers in the factories.
- b. ***bankruptcy of those SOEs which could not be reorganized***. In this situation, the government will retrieve the land used by these SOEs, and lease the land for redevelopment. Compensation of workers will be given by the government.

(Source: Zheng, 2001)

Restructuring of SOEs within trades released large amount of land to the market for

redevelopment. Factories consolidated and relocated to the outskirts were allowed to transfer the land use rights or develop their occupied land. It was not until 2000 that it finally became explicit when “Notice for Strengthening the Management on Land Use Rights during the SOE Reform” was issued by Guangzhou municipal government. As a result of SOE reform, large amount of SOEs were relocated to the urban periphery. For instance, in Liwan District, industrial land used to take up 34.8% of the total land area and that reduce to less than 15% in 1999 (Zheng, 2001). Land released by the relocation of factories went into the land market and was used for real estate development.

4.4.4 Increase of foreign investment in real estate development

To facilitate urban development and redevelopment, aggressive strategies have been adopted by the local governments of Chinese cities to invite business and attract investment. As one of the sources of investment in urban development, increases in foreign-direct investment (FDI) are dramatic since the ‘open door’ policy was issued (Kueh, 1992). Being one of the coastal open cities, Guangzhou has attracted much FDI.

FDI is the ‘external’ resource that runs completely outside the traditional channels of money movement. For the local state, attracting foreign investment has become crucial for the city’s growth. As land leasing can attract investors and contributes to local revenues, it becomes one of the main measures that the municipality takes to accelerate the urban economic growth. In Guangzhou, foreign investment has been allowed to enter the real estate market since the early 1990s. Number of real estate development companies with foreign capital grew quickly since then (see Table 4.2). Foreign

investors are free actors in the emerging land market. They respond to the real estate development market but not the requirement of the local government (see Table 4.3). Foreign investment on real estate development reached the peak during the prosperity of real estate market in 1996 and quickly reduced since then, which indicated the drop of the real estate market.

Table 4.2 Numbers of Real Estate Developers by Foreign Investment*

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number	64	200	305	309	327	284	352	410	381	393

* including Hong Kong, Macao, Taiwan

Source: Guangzhou Statistic Bureau, various years

Table 4.3 Foreign Investment on Real Estate Development in Guangzhou Urban Districts (million RMB)

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Amount	5166.5	6947.0	6008.1	4479.1	2541.0	1989.5	1296.0	1394.3	1028.9
% of total investment	19.8%	32.1%	25.2%	14.8%	8.2%	4.5%	2.8%	2.8%	2.1%

Source: Guangzhou Statistic Bureau, various years

4.5 Summary

This chapter presents the background of urban development in transitional China as well as in Guangzhou. Urban development and redevelopment of Guangzhou is promoted by the government initiated reforms. After 30 years control of centrally planned system and industrial development, the impetus of urban development in post-reform era could be boiled down to economic, housing, urban and SOE reforms. The local government of Guangzhou was empowered by the decentralization of economic decision-making since 1978. In the context of power restructuring, Guangzhou municipality also restructured the economy and regained the prosperity of its tertiary sectors. Furthermore, the introduction of land leasing system has aroused local interests of land redevelopment for economic growth and resulted in extensive

redevelopment of centrally located sites.

Due to political constraints, gradualism prevails and leads to trial and error in the implementation of new initiatives (Wang, 1994; Zhu, 2005). Old organizations are given opportunities to adapt to the new system. In order to carry out the transformation with the old actors influencing the institutions, institutional changes are gradual. The transitional institutions thus emerge as a link between the out-going central planning system and the incoming market mechanisms.

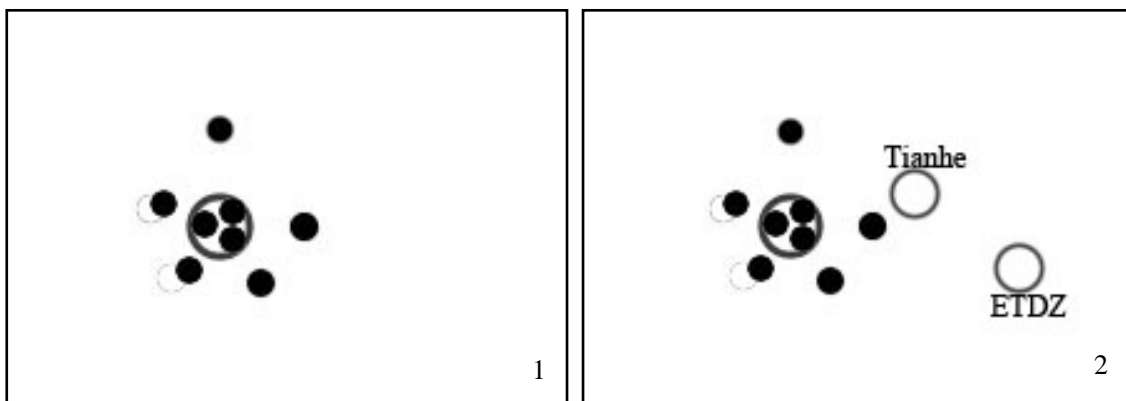
5 GUANGZHOU: PHYSICAL CHANGES IN THE TRANSITION

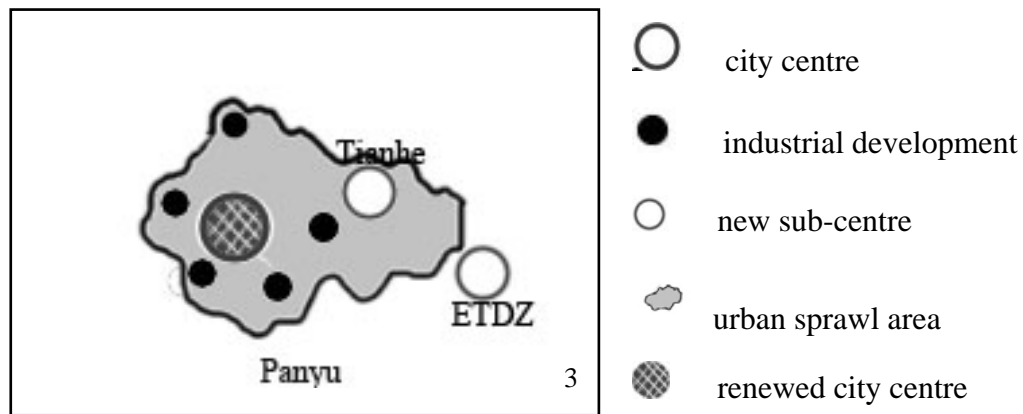
5.1 Introduction

Having identified the background of urban building provision, one can attempt to read the change of landscape of Chinese cities. The transformation of urban built environment in Guangzhou is summarized in this chapter in terms of urban expansion and land redevelopment in central areas in time series.

5.2 Physical changes of Guangzhou

Figure 5.1 demonstrates the physical change of Guangzhou city through three development periods: industrial development (1949-1977), development of sub-centres (1978-1987) and urban restructuring and sprawl (1988-present). Urban expansion and land redevelopment are introduced in following sections.





1. industrial development (1949-1977)
2. development of sub-centres (1978-1987)
3. urban restructuring and sprawl (1988-present)

Figure 5.1 Evolution of Urban Built Environment in Guangzhou

5.2.1 Limited industrial expansion (1949-1977)

From 1949 to 1978, urban expansion was guided mainly by economic plans set by the central government and local urban planning acted rather passively (Xu, 2001). Under the control of ‘centrally-planned system’, a project-specific method was developed. Due to the socialist land allocation system and tight budget for compensation in redevelopment projects, new construction had been placed on vacant land which was mostly located in urban peripheries. Development of urban land followed the steps of: expansion of industrial land – residential use filling in – commercial and service facilities equipping (Wu, 1990). Development surrounded the existing built-up areas and formed a belt of expansion. For example, the landscape along the new Industry Avenue (*Gongye Dadao*) in Haizhu District presented plan-led industrialization of Guangzhou. However, being a coastal city, Guangzhou was given very low priority in receiving industrial investment. Guangzhou was thus maintained as a compact city with very little unplanned expansion (Xu & Yeh, 2003).

5.2.2 Emerging of sub-centres and development in urban peripheries (1978-1987)

Guangzhou stepped into a new era of fast urban expansion since the 1980s. Intending to increase governmental fiscal revenues, the Guangzhou Municipality initiated measures to develop the urban peripheral areas. In its 14th master plan (1984), a three-nuclei urban structure was formed (old city center, Tianhe and Whampoa) (Guangzhou Urban Planning Bureau, 1984) (see Figure 5.2). The new city blueprint signaled a shift of the city's spatial policy. This master plan set a limit of 250 km² as planning area for Guangzhou's growth up to 2000, rising from 156.45 km² in 1984. This target was actually achieved in 1995 (see Table 5.1). During the urban expansion process, Guangzhou has evolved from a compact city to a dispersed metropolis.

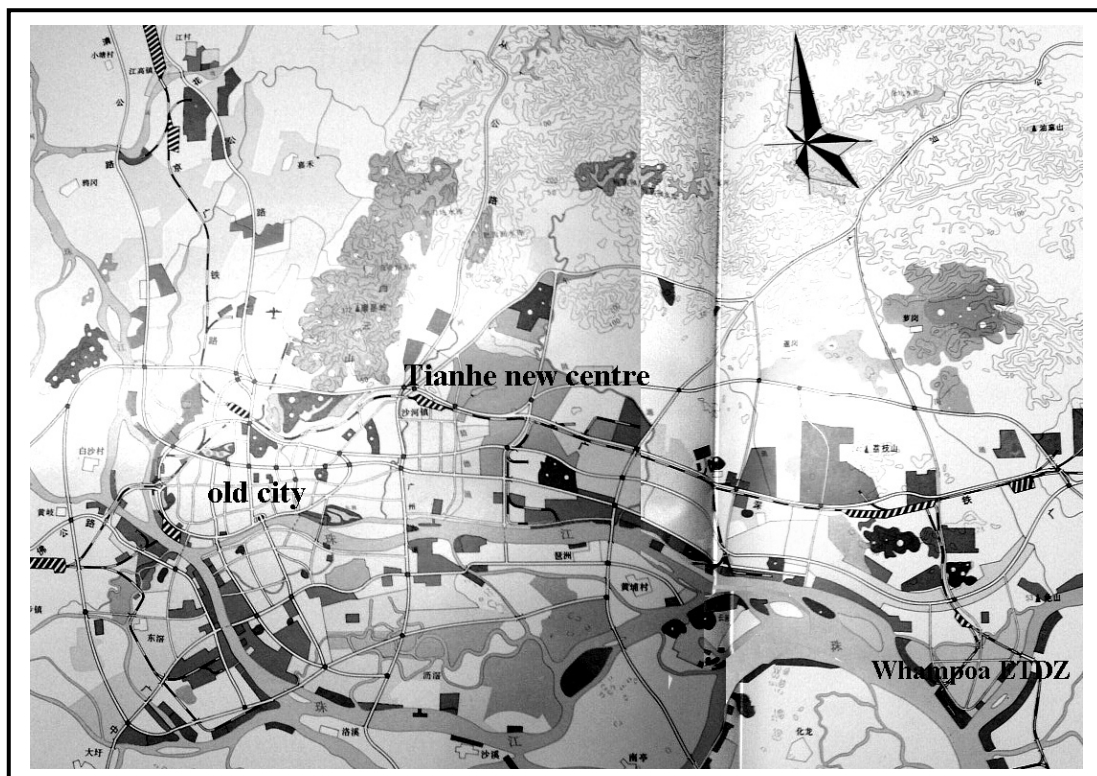


Figure 5.2 1984 Master Plan of Guangzhou City

(GUPB, 1983)

Table 5.1 Guangzhou: Expansion of Urban Built Area (km²)

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1995
Area	135.96	138.96	142.2	148.35	156.45	162.9	169.72	176	182.25	265.63
Increase rate over last year (%)	2.9	2.2	2.33	2.43	5.46	4.12	4.31	3.58	3.55	7.345

(GUPB, 1994)

Large amount of investment had been spent on urban expansion. First, Guangzhou seized the opportunity to develop public and CBD facilities in Tianhe when the 6th National Games were held in 1987. In the meantime, the municipality invested in Guangzhou Economic and Technological Development Zone (ETDZ) in Whampoa, providing infrastructure and serviced land under a unified planning method. Situated 32 km from the city core, the Guangzhou ETDZ has a land area of 9.6 sq km. However, although the ETDZ in Whampoa was established as a sub-center, it did not lead to a substantial spread of urban development to the new areas. Areas between the old city centre and the ETDZ were not filled driven by the market force due to the delay of land reform until 1988.

After 1984, Guangzhou City government stopped allocating land to small development projects and began to initiate large-scale urban development (Wu & Yeh, 1999). By ‘comprehensive development’, many large-scale housing projects were being developed at the periphery of the city, especially near new suburban sub-centers such as ETDZ as large sites and cheaper land were available. ‘Comprehensive development’ is a unified approach to acquire land and develop large residential communities in the urban periphery. The municipality first acquired land from farmers (collective land owners of rural land) and then transferred land to the project concerned parties (Yeh and Wu, 1996). The new approach can speed up land acquisition through a standard

compensation procedure, encouraging various projects to share common facilities and allowing SOE land users disengage from direct involvement in land development (Wu, 1998). However, the ‘comprehensive development’ was not driven by the market mechanism. When the urban reform started and the land market emerged, comprehensive development has been gradually evolving towards a market-oriented way of development.

5.2.3 Rapid real estate development and urban expansion Since 1988

The land reform in 1988 dramatically changed the speed and pattern of urban development in Guangzhou both in terms of urban expansion and land redevelopment. With the SOE reform, industry relocation to suburban areas took place at an unprecedented rate. Various development zones have been established. Guangzhou’s built-up area reached 298 km² (prior to the annexation of Panyu and Huadu) in 2000, far exceeding the limit set in the 1984 master plan (Xu & Yeh, 2003). To realize the target of “international metropolitan city”, Guangzhou allocated a large amount of land to investors, real estate developers, infrastructure construction and provision of public projects (GCYEC, 1996). Urban expansion in Guangzhou is driving by plans formulated by the municipality with the intention of stimulating local growth (Wu, 1998).

Of all the development types, real estate development contributed most to the urban physical changes. Fast increasing income of residents and the price of commodity housing stimulated the development of housing (see Table 5.2, 5.3). The period between

1992 and 1995 witnessed the booming of urban real estate development driven by a great amount of investment and speculation (see Table 5.4). The number of real estate development company rose to 1128 in the end of 1995 from 105 in 1990. There was no planning guiding the urban development and the city spread out to all directions out of order. It expanded to the extent far exceeding the limit set in the 1984 master plan. Rapid urban expansion prompted Urban Planning Bureau of Guangzhou to formulate the 15th comprehensive plan for the city in 1994 to enlarge the planned built up area to 555 km² in 2010 (GUPB, 1994). Spatial structure of the city is planned to have three clusters: central, eastern and northern clusters. It was actually trying to rationalize the existing spatial patterns of the city (Xu & Yeh, 2003).

Table 5.2 Increase of Income per capita

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
income	5281	7188	9118	9940	8768	11256	12019	13967	14694	13380	15003

Source: Guangzhou Statistic Bureau, various years

Table 5.3 Increase of the Price of Commodity Housing (Yuan)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
price	3738.6	3156.5	5106.1	5064.0	4842.3	4303.6	4294.1	4262.3	4200.0	4210.7

Source: Guangzhou Statistic Bureau, various years

Table 5.4 Real Estate Development in Guangzhou (1991-1998)

	Investment (billion Yuan)		floor space under construction (thousand m ²)		floor space completed (thousand m ²)	
	Amount	Over last year	Amount	Over last year	Amount	Over last year
1991	1.575	31.91%	2472.8	207.83%	1479.5	2.36%
1992	4.516	186.81%	4667.9	88.77%	2250.6	52.12%
1993	13.125	190.64%	6390.3	36.90%	3720.0	65.29%
1994	18.945	51.27%	7340.9	14.88%	4610.0	23.92%
1995	20.911	10.38%	6400.0	-14.70%	5107.7	10.80%
1996	22.916	9.59%	5264.8	-21.56%	6122.6	19.87%
1997	23.742	3.60%	5339.9	1.43%	6549.1	6.97%

1998	26.878	13.21%	7555.0	41.48%	7563.0	15.48%
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(Li, 2002)

Adjustment for urban development began in 1997 in Guangzhou. A series of adjustment policies in planning control and contraction of monetary supply were implemented to reorganize the real estate market. Since 1998, another upsurge of real estate development has been observed (see Table 5.4).

Since 2000, the local government also leased large amounts of rural land along the highways to draw the developer's investment. In Guangzhou, large-sized housing estates began spreading out in suburban areas along Southern China Expressway. Related low land acquisition fee makes it possible for the developers to acquire large amount of land to pool and develop. To meet with the requirement of general social life and to attract residents, developers provide all kinds of facilities such as buses, schools, sports amenities, supermarkets and sometimes even hospitals which make the communities almost independent towns. Independent large scale estate projects on rural land in suburban areas introduced a new landscape into Guangzhou and the development style quick spread over the whole country.

Rapid development also brought a new urban landscape – urban villages – in inner Guangzhou which are enclaves of rural settlements within the urban built-up area (Zhu, 2002). They are composed of land parcels of “homeland” for those peasants to build houses for their own accommodation, and land plots for them to carry out nonagricultural economic activities which can keep them self-employed. By 2004, there

were 139 urban villages in Guangzhou (Guangzhou Urban Planning Bureau, 2004).

Rent of private housing units to the migrants becomes the main source of villagers' incomes. Having seen a rising demand for housing from low-income migrants who come to search for jobs in the fast developing city, villagers started to construct apartment buildings for rent. Illegal constructions encroach upon open spaces, minimizing the space between buildings. High density and complicated background of the residents in the urban villages bring many environmental and social problems to the central city of Guangzhou.

5.2.4 Recent Urban Development Issues

Guangzhou is now losing its dominancy in Southern China due to the development of other cities, which challenges the functions of Guangzhou as the centre of commerce, finance, manufacturing, tourist and information in southern China (Xu & Yeh, 2003). The Guangzhou municipality is now trying to change the situation by strengthening its urban development. A multi-centre structure is adopted, calling for "expansion in the south, optimisation in the north, advance in the east, and linkage in the west". A comprehensive and speedy transportation network in the Pearl River Delta is planned to provide easier access to other cities (Xu & Yeh, 2003).

Resetting the strategic objective of the urban development as a "regional central city in the world with a high level of prosperity, efficiency and civilization" (Xu & Yeh, 2003), Guangzhou is now aiming at "minor change in a year; medium change in three years;

and great change in 5 years”. A total amount of US\$ 7.25 billion has been invested by the government for urban construction from 1999 to 2002 and Guangzhou was awarded the “United Nations’ Best Improvement of Human Settlement” in 2002 (see Figure 5.5). To develop the city into a liveable metropolis by 2010, the government will invest US\$ 12.8 billion in the next 5 years (Xu & Yeh, 2003). However, Guangzhou has a long way to go to reach the objective of a livable ecological city that is favorable to business initiatives.



Figure 5.3 Guangzhou in Present

Source: www.googleimage.com

5.3 Land redevelopment in Guangzhou

With the brief introduction of the overall picture of the physical changes in Guangzhou, land redevelopment issues are highlighted in this section to provide the background of the case study.

During the first three decades after the liberation, the absence of land prices removed all incentives to redevelopment of the built-up areas, which resulted in a land use freeze. There was little urban redevelopment in the city centre as the newly established socialist state could not afford the cost of relocating the residents and carrying out substantial urban redevelopment (Wu & Yeh, 1997). Central areas of Guangzhou thus suffered from dilapidated and overcrowded housing and a deteriorated environment. By the end of 1985, there were about 3.2 million inhabitants in the city and most of them were living in the old city centre. The central urban area of Guangzhou comprised only 21% of the urban space but 60% of the city's population (Xu & Yeh, 2003). At the beginning of the economic reforms, provision of urban housing and urban restructure, therefore, became the most urgent tasks for Guangzhou.

5.3.1 From 1978 to 1987

The initial purpose of urban redevelopment was to improve residents' housing conditions and redevelop the deteriorated built environment. Housing reconstruction and infrastructure improvement were the major objectives of urban redevelopment (He & Wu, 2005). Governments intended to carry out urban redevelopment under local government- enterprise coalitions (Zhu, 1999). For example, together with some designated developers, Guangzhou municipality set the urban renewal plan for Jinhuaajie in Liwan District and Dongfengjie in Yuexiu District, which were expected to become the example of urban redevelopment. The redevelopment process of these projects actually moved very slowly due to the huge cost of relocation and severe financial deficiency of the government and REDCs. What also hampered the redevelopment was

that the land market had not been developed and existing land users stood firmly on their occupied land.

However, the transformation of housing production mechanisms had brought extensive redevelopment into the central areas, although large scale urban renewal was not yet affordable for the local government. Spontaneous residential development with no layout plan by *danweis* could be found here and there in the central area of Guangzhou.

5.3.2 From 1988 to present

Since the urban reforms, housing provision and infrastructure improvement were no longer the only targets of urban development. Promoting local economy growth, restructuring urban spaces and transforming urban functions are also among the multiple objectives. To create a favorable environment for attracting inward capital, and also to make capability visible to the central state, the local state shows great zeal for city place remaking through urban redevelopment (He & Wu, 2005). Despite high cost and difficulties in urban redevelopment, the great potential of commercial profits has attracted more and more domestic and foreign investors and developers (see Table 5.5). New commercial and residential buildings have been built to replace the dilapidated neighborhood and industrial areas in the central city. Obtaining land use rights from the local government and transforming the dilapidated neighborhoods and factories into high-profiled properties became highly profitable and attracted a great amount of investment. In the urban area, developers completed RMB ¥42.79 billion development during the period from 1990 to 1995 with the annual increasing rate of 83.9% on

average. Floor space completed in this period was 17.2 million m² (10.4 million m² in urban areas) which is 2.21 times of the total completed area in last 5 years (GCYEC, 1996). ‘Modern’ high-rise residential and commercial complexes were introduced with a high density and efficient land use.

Table 5.5 Investment in Capital construction and Real estate development in urban area (8 districts) of Guangzhou (million Yuan)

Year	Capital construction ¹⁰	Real estate development
1952	32.55	
1957	152.64	
1962	68.11	
1965	187.18	
1970	185.75	
1975	495.72	
1978	615.47	
1980	741.26	
1985	1891.55	444.52
1990	3306.49	975.41
1995	17869.62	17024.58
2000	30033.84	34660.68
2001	31102.31	37650.93
2002	26548.74	40111.12

(GSB, 2003: 104)

5.4 Summary of Guangzhou’s Development

The efforts of Guangzhou to revitalizing the city have created significant results. Urban physical transitions in Guangzhou were drastic in both the urban expansion and land redevelopment, both of which demonstrated the interaction between the government’s management and the emerging urban land market. It is understood that the physical transition is led by a series of institutions evolved in the transition as a link between the

¹⁰ Investment on Capital Construction refers to the new construction projects and the extension projects of SOEs, institutions or administrative units mainly for the purpose of expanding production capacity or improving project efficiency.

out-going central planning system and the incoming market mechanisms. During the 1980s, the urban expansion of Guangzhou was greatly interfered by the government plan. Real estate markets began acting as a strong booster in remaking Guangzhou's landscape since the urban reform in 1988. The dynamics of development and redevelopment in Guangzhou have experienced several waves, indicating the evolution of the institutions.

However, with the brief introduction of Guangzhou's land redevelopment, how land redevelopment of Guangzhou has been evolved is still vague. The following Chapters make use of the empirical case of Jinhuajie's redevelopment for an in-depth analysis of the transitional institutions by analyzing property rights structures and describing resulted land redevelopment characteristics.

6 LAND REDEVELOPMENT IN JINHUAJIE

(1980 – 2004)

6.1 Introduction

Chapters 6 and 7 make use of the empirical case of Jinhuajie's redevelopment for an in-depth analysis of the evolution of land redevelopment characteristics and institutions. This chapter examines the evolution of land redevelopment in Jinhuajie in terms of redevelopment characteristics. Once being a typical area of high-density urban centre with a large amount of dilapidated neighborhoods and industrial areas, Jinhuajie experienced a complicated process of land redevelopment. This study covers the period from 1978 to present, during which period the land redevelopment characteristics, types and processes have been changing over time.

6.2 Rapid Land Redevelopment: Change of the Built Environment in Jinhuajie

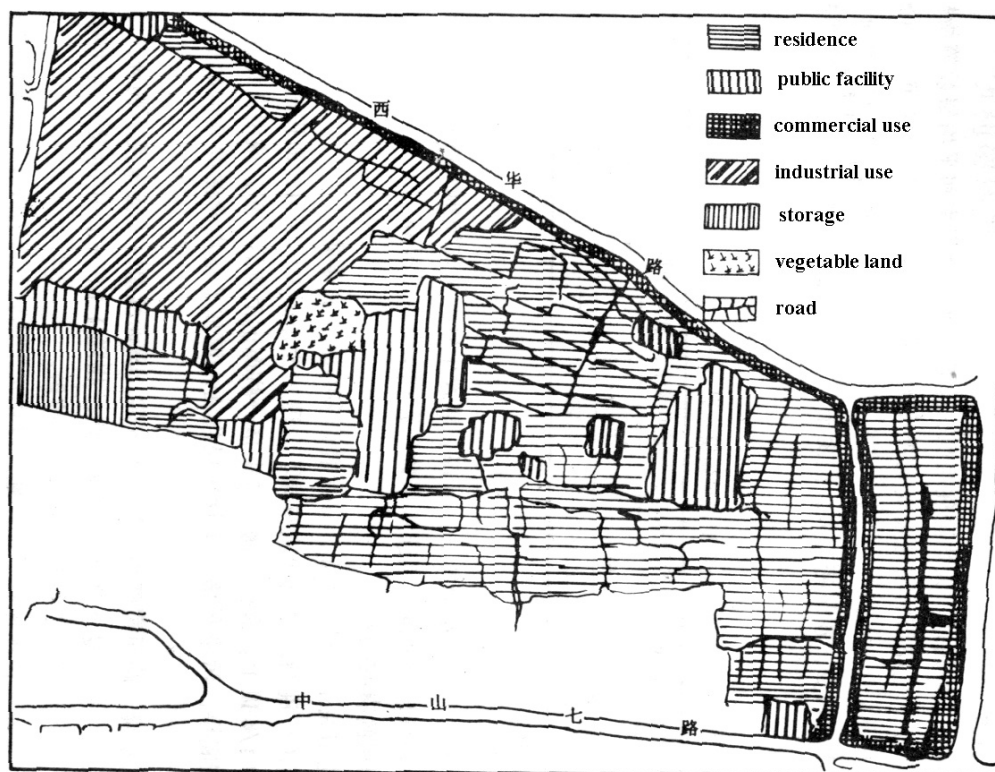
6.2.1 Built environment in the early 1980s

In the early 1980s, land use types in Jinhuajie included residential (41.76% of the total land), commercial, industrial (26.18% of the total land), public utilities, storage, urban infrastructures, and a small area of agricultural (vegetable) land (see Figure 6.1). In Jinhuajie, over 11.4 ha of land in the west part were occupied by factories and small handicraft workshops scattered throughout the whole area. Besides the industrial areas, most street blocks in Jinhuajie were divided by individual land users into small parcels for private houses (see Figure 6.2). Lacking in maintenance for over 30 years, the majority of neighborhoods in Jinhuajie were aged and dilapidated and the urban

landscape was extremely rundown. The width of most streets and lanes within Jinhuaajie ranges from 2 to 3 meters, which made it very difficult for fire engines and ambulance to pass. The population density in Jinhuaajie was as high as 67,215 person/ km² (Wei, 1997). At the beginning of the period of economic reform from 1978, urban redevelopment of Jinhuaajie, therefore, became one of the most urgent tasks for the local government.

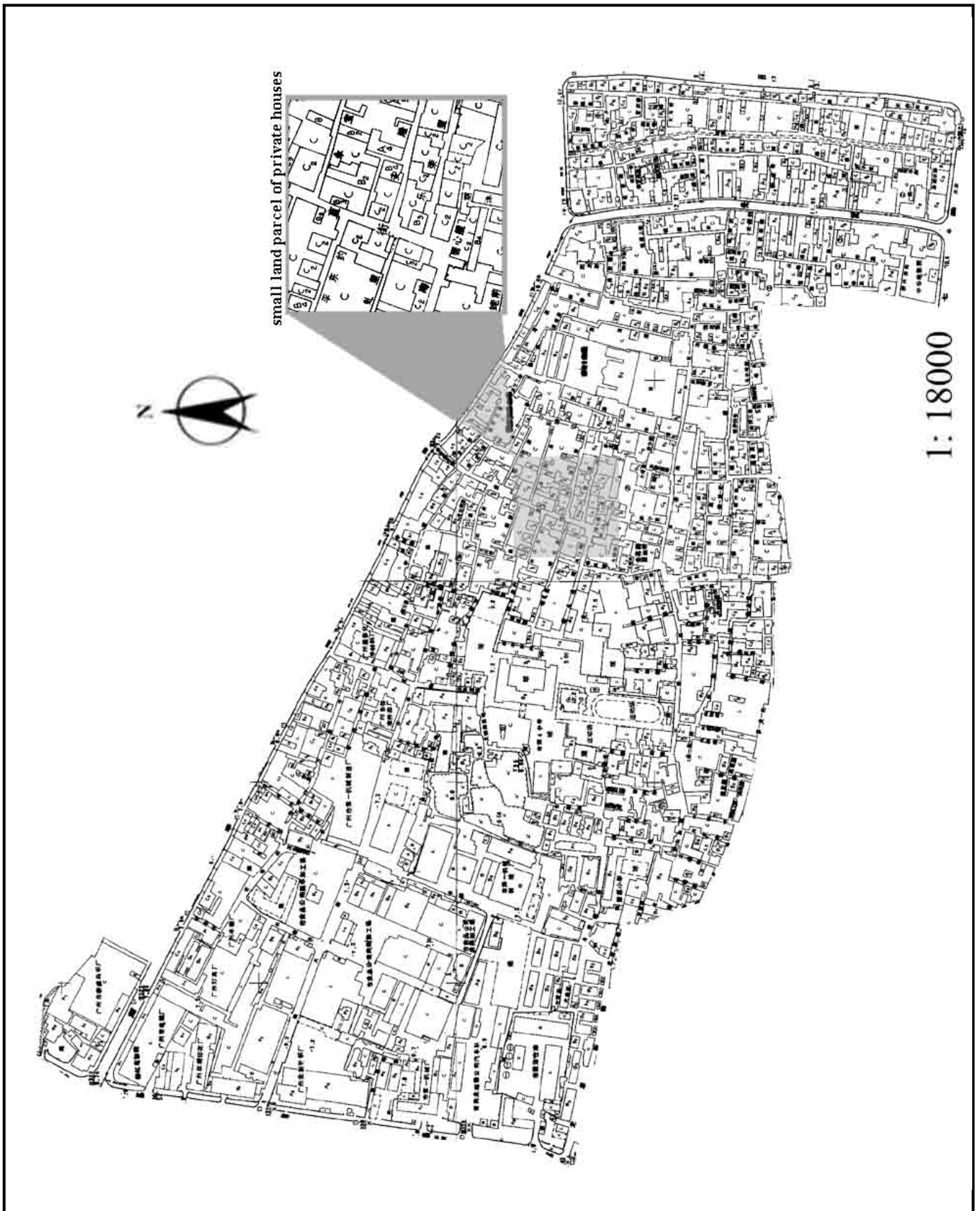
Houses in Jinhuaajie belong to three different types of owners: the state (including the Real Estate Administration Bureau (REAB) of the local municipality and *danwei*), Overseas Chinese and local private households, whose building floor areas respectively account for 11%, 4% and 85% of the total (GUPB, 1983).

Figure 6.1 Land Use in Jinhuaajie in early 1980s



(Wei, 1997: 51)

Figure 6.2 Maps of Jinhuaajie in the early 1980s

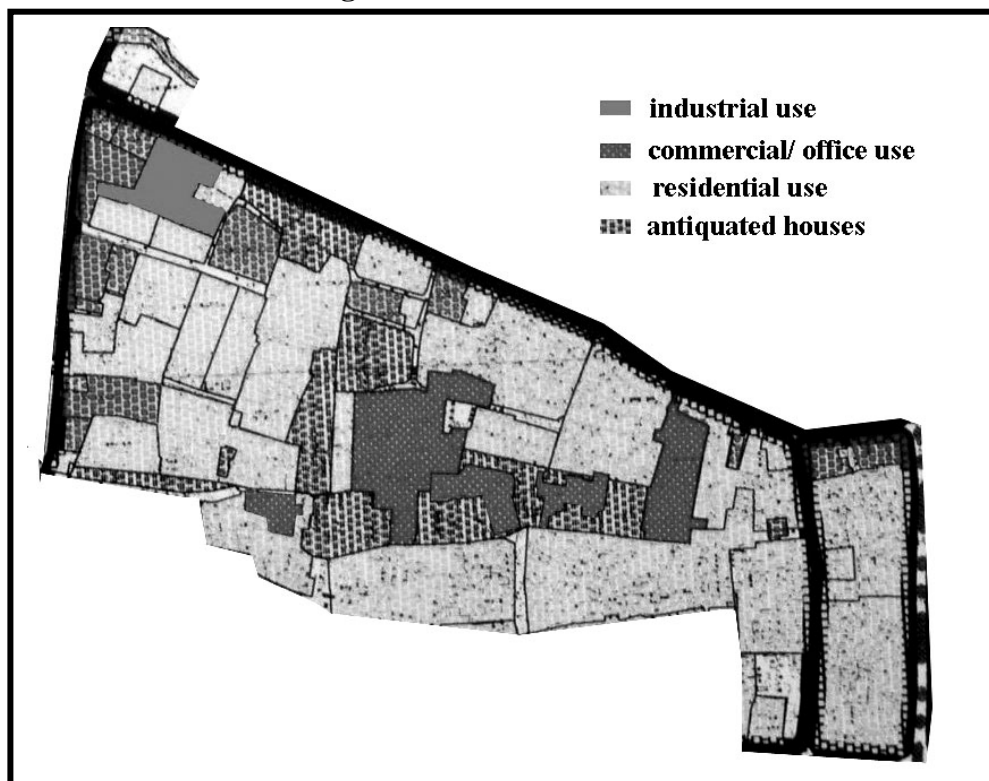


Source: maps in Guangzhou Urban Planning & Design Survey Research Institute

6.2.2 Current built environment

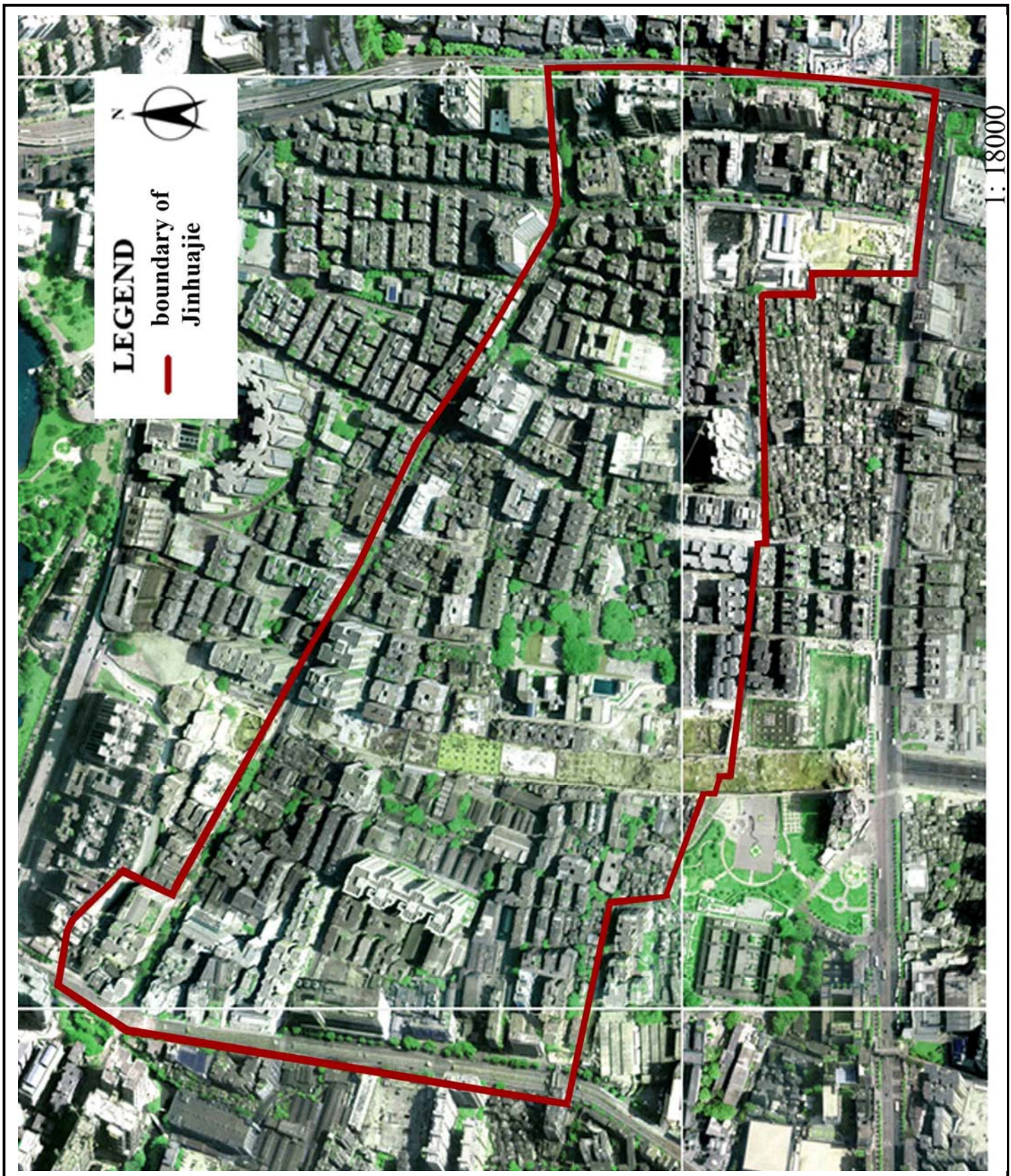
Being a typical area of high-density urban centre with a large amount of dilapidated neighborhoods and industrial areas, Jinhuajie experienced a complicated but rapid process of land redevelopment. 92 projects have been completed since 1980. Jinhuajie has changed from a dilapidated residential area with concentrated light industries to an area of commodity housing, commercial buildings, offices and modern infrastructures (see Figure 6.3, Figure 6.4). However, the aspiration of urban redevelopment to reduce building and population densities has not been achieved. The population density has increased to about 80,000 person/ km² (officials in *jiedao banshishu*, interview, Oct. 14, 2004). Figure 6.6 shows the overall changes of the built environment in Jinhuajie.

Figure 6.3 Land Use in 1999



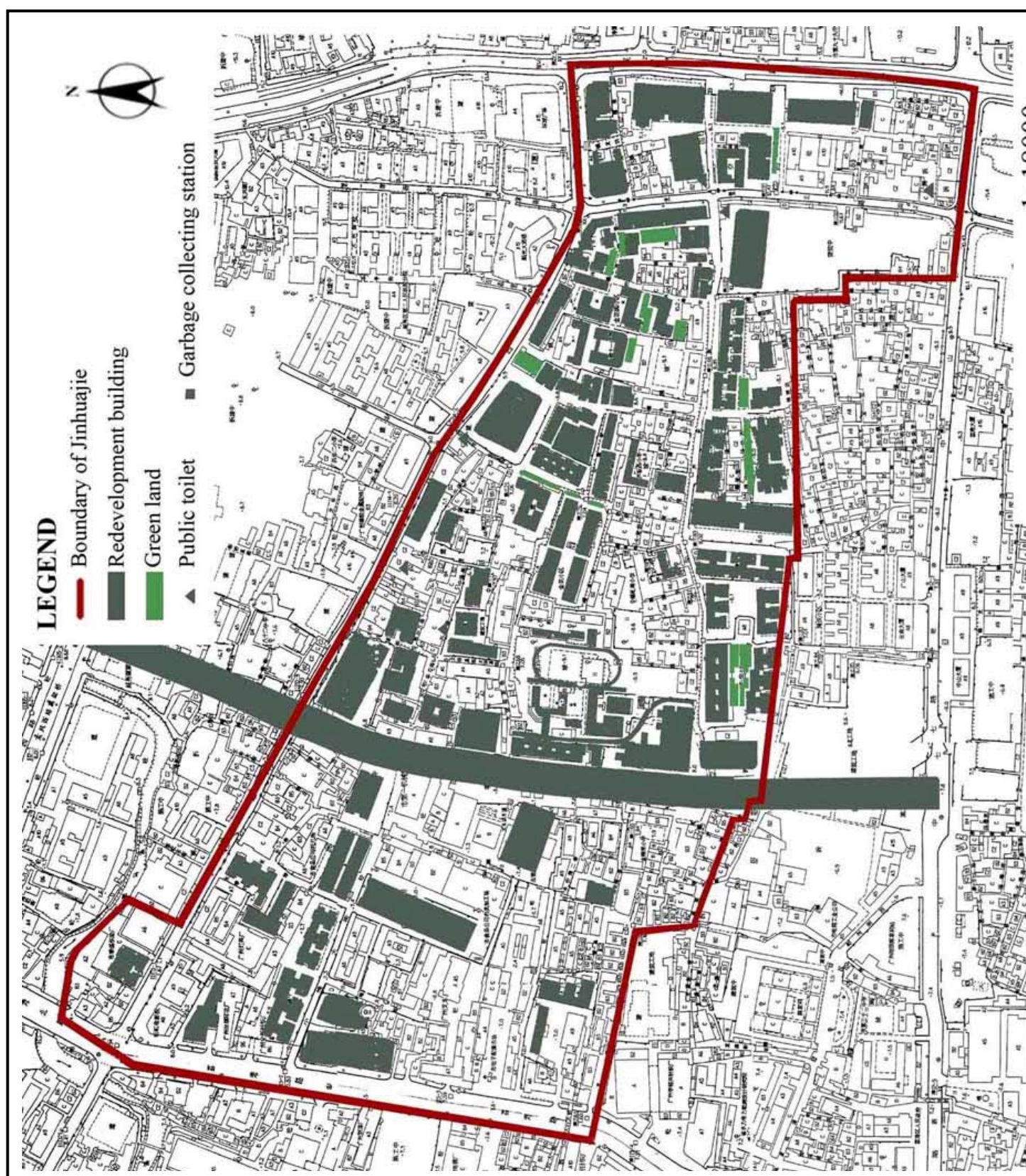
Source: Urban Plan of Liwan District (1999)

Figure 6.4 Aerial Map of Jinhuaajie in 2000



Source: Aerial maps in Guangzhou Land Resource and Housing Bureau (2000)

Figure 6.5 Redevelopment Projects in Jinhuaajie from 1980 to 2004



Source: record of Planning Permission in GUPB (accessed in June, 2004), maps in Guangzhou Urban Planning & Design Survey Research Institute, maps in Liwan Urban Planning Bureau

6.3 Evolution of Urban Redevelopment Modes in Jinhuaajie

Following the institutional changes in the transition, there have been three development types in Jinhuaajie sequentially during 20 years of redevelopment. For each type of redevelopment, different actors have been involved.

1. housing, workshops and offices developed by *danweis* for their own use

Scattered construction in Jinhuaajie was first carried out by *danweis* spontaneously in the 1980s, providing housing, workshops and offices for their own use.

2. comprehensive large scale urban redevelopment projects

In the late 1980s and the early 1990s, comprehensive large scale urban redevelopment projects were carried out in Jinhuaajie as pilot projects of urban redevelopment in Guangzhou. There are three kinds of developers involved in Jinhuaajie redevelopment projects: government subordinated REDCs, foreign and domestic private developers.

3. redevelopment of SOE's land

Since 1996, industry relocation invited more actors to join the urban redevelopment of Jinhuaajie. Jinhuaajie became one of the pilot areas of industrial land redevelopment in the late 1990s. Development of SOE's land was carried out by SOE and domestic developers within which both group subordinated REDCs and private developers were involved.

6.3.1 Housing, workshops and offices developed by *danweis* for their own use

This type of building provision was mainly carried out in the 1980s when the land market was not legally constructed but the economic reform had started. Increase in the

provision of housing, workshops and offices by *danwei* in the 1980s indicated the reform of housing commercialization and the rise of Self-raised Funds (SRFs). 17 projects were developed by *danweis* in Jinhua jie (see Table 6.1, Figure 6.6).

Within these 17 cases, there were two types of redevelopment.

1. Three of the projects (No. 1, 2, 3) were carried out on *danwei*'s land.
2. For others (No. 4 - 17), the construction units acquired land from the sitting residents

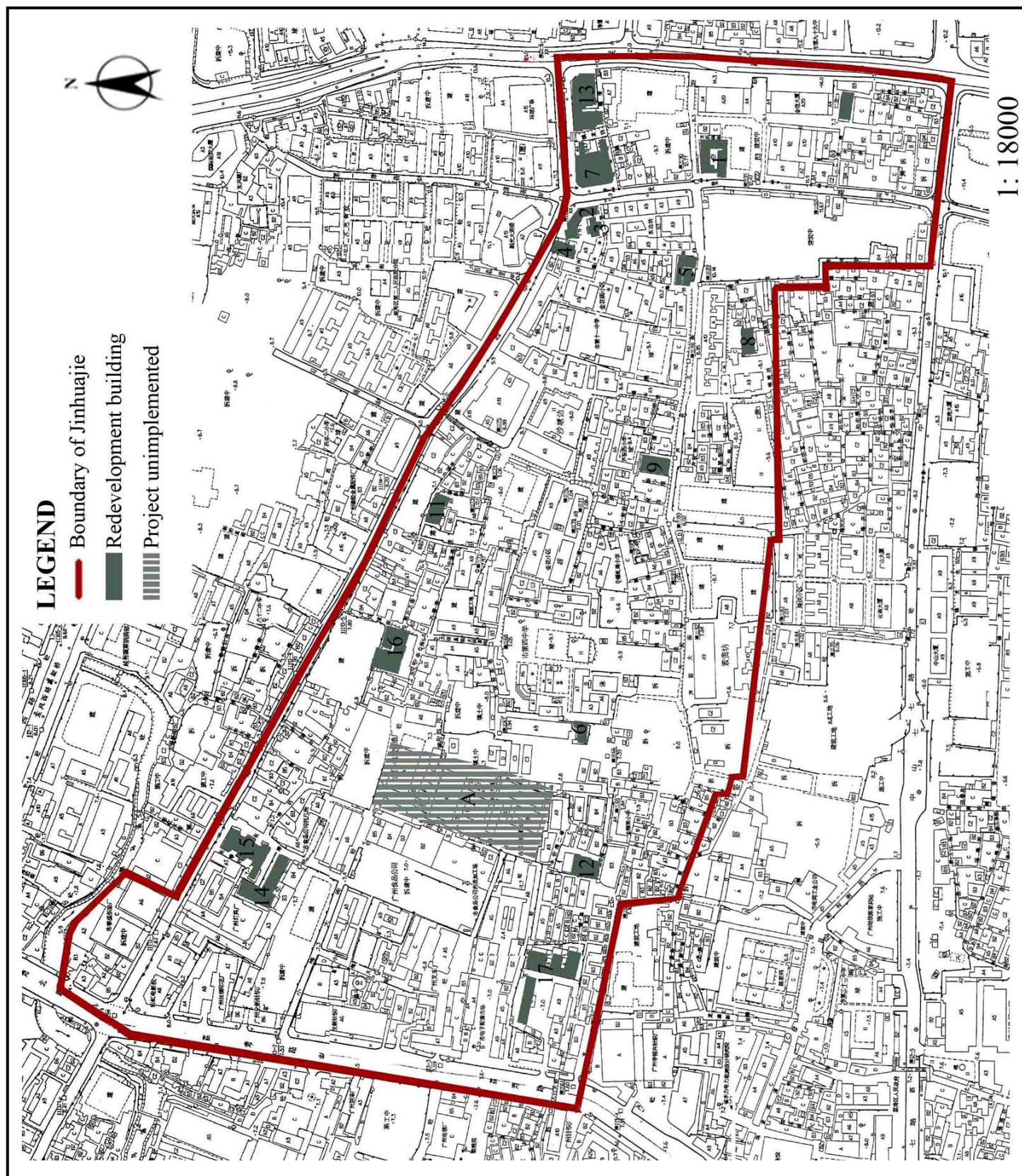
Source: GUPB records & Author's survey

Table 6.1 Housing and Offices Development by *daiwei*

No	Construction unit	Use type	Year
1	Hongfeng Lock Factory	housing	1980
2,3	2nd Headquarters of Housing and Construction Office	housing	1980
4	Guangzhou Camera Equipment Factory	workshop	1980
5	Guangzhou Dyeing and Weaving Industry	housing	1980
6	Guangzhou Gardening Company	workshop	1980
7	Guangzhou Board of Health	office	1981
8	Guangzhou Weaving Bureau	housing	1982
9	Guangzhou Bicycle Company	housing	1982
10	Guangzhou Power Bureau Guangzhou Mend Plant	housing	1982
11	Guangdong Friendship Company	housing	1982
12	Bicycle Chain Guard Factory	storage	1984
13	Guangzhou Ocean Petroleum Taxation Bureau	Office/ housing	1985
14	Guangzhou Lamp Plant	workshop	1985
15	2nd Light Industry Development Company	Office/ housing	1987
16	Guangzhou Judicatory Bureau and 4th Standard Accessory Factory	housing	1989
17	Guangzhou Food Bureau	housing	1990s

Source: record of Planning Permission in GUPB (accessed in June, 2004), Urban Planning Bureau Liwan Branch (accessed on Oct. 14, 2004)

Figure 6.6 Housing, workshops and offices development by *daiwei*



Source: record of Planning Permission in GUPB, Urban Planning Bureau Liwan Branch, maps in Guangzhou Urban Planning & Design Survey Research Institute

Initially in the 1980s, the redevelopment process started with the project approvals from the municipal planning bureau – Guangzhou Urban Planning Bureau (GUPB), the supervising bureau (headquarter of the industrial group) and the local planning commission. For the projects carried out on *danweis*' own land such as Project 1-3 in Table 6.1, the *danweis* had already held the ***Land Use Certificate***. They could start the construction after obtaining ***Design Outlines*** which served as planning control. In many cases, projects were allowed to be carried out without the issue of any ***Design Outlines***. Planning control over development was weak during the 1980s according to the author's interviews to the officials in GUPB.

When the needed land sites were occupied by other land users, *danweis* which planned to construct had to acquire land from the original land users (Project 4-17 in Table 6.1). After the *danwei* obtained the approval from GUPB, the supervising bureau and local planning commission, a ***Land Requisition Location Note*** (LRLN) would be issued by GUPB as the demolition and relocation permit and the notice would be sent by Real Estate Administration Bureau (REAB) to inform related departments. 14 projects (No. 4 - 17) in Jinhua jie with changing land users from private households to *danwei* have been carried out successfully.

However, as Case A in Figure 6.7 showed, one *danwei* might fail in acquiring the land when the land was occupied by the other *danwei*, which might be due to the socialist land use rights of *danweis*. Guangzhou Normal College received the planning

permission to redevelop the land used by the 1st Manufactory in 1985. But it failed in the negotiation with the 1st Manufactory and the construction was thus not implemented.

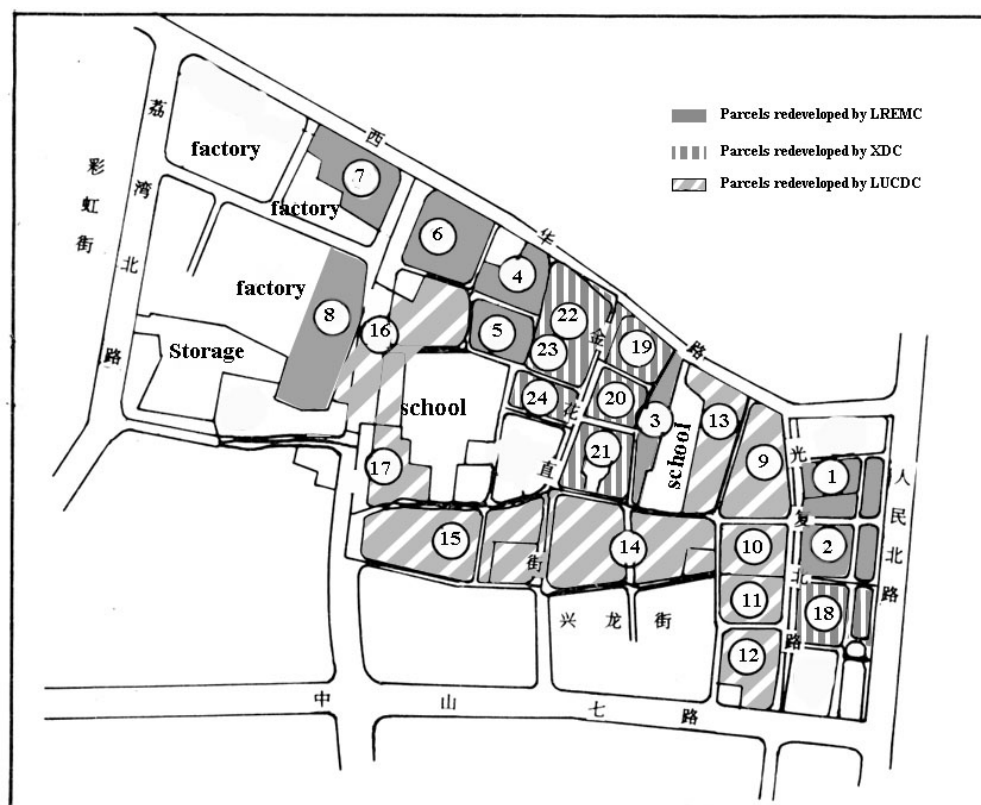
Once a LRLN was issued, the construction unit and the affected residents or *danwei* were required to sign detailed resettlement and compensation contracts. After signing the contracts of demolition and resettlement, the construction units could turn to GUPB for the *Land Requisition Approval* and *Design Outlines*. After the demolition, resettlement and compensation are settled, and the construction units could get *Land Use Certificate* as the certification of using the land.

6.3.2 Comprehensive Large Scale Redevelopment Projects

Following the dynamic economic growth in the 1980s and the urban reform initiated in 1988, Guangzhou municipality was looking for opportunities to carry out large scale urban redevelopment. Being a typical central area with high population density and dilapidated living environment, Jinhuajie was chosen by the municipality as the test case of urban redevelopment. In 1988, the Guangzhou Municipal Construction Commission and three REDCs – Guangzhou Liwan Urban Construction Development Company (LUCDC), Xiguan Development Company (XDC) and Lihua Real Estate Management Company (LREMC) – signed an agreement to conduct Jinhuajie redevelopment project. Land leasehold was given to the REDCs at no payment to the government. An area of 29 hectares had been divided to 27 land parcels for redevelopment (Construction Bureau of Liwan District, 1988). However, only 24 parcels have been developed by the REDCs (see Figure 6.7). The redevelopment of the

whole area was expected to be accomplished within 5.5 years (September, 1988 – February, 1994).

Figure 6.7 Allocation of the Parcels for Urban Redevelopment Project



Source: file in Construction Bureau of Liwan District (accessed in June, 2004)

There are 57 buildings provided on 24 land parcels. 12 buildings are commodity housing or offices, 1 building is a government office and the rest (44 buildings) are resettlement housing. Most of the resettlement housings have been provided as 9-storey buildings in order to minimize the cost as the buildings with storey less than 9 were not required to equip lifts before 1997 (see Table 6.2, Figure 6.8). What results in is that the total floor areas of the resettlement housing (282,000 m²) are even less than those of the commodity housing (285,680 m²) although the number of buildings of the former is much more than that of the latter. 169,000 m² of floor areas are provided as on-site and

off-site public facilities (Construction Bureau of Liwan District, 1989) (see Table 6.3).

Commodity housing and offices, on-site resettlement housing and public facilities compose the new urban built environment of Jinhuajie.

Table 6.2 Projects in Jinhuajie's Urban Redevelopment Project

REDC	Parcel No.	Building No.	Land Use Type	Construction period*
LREMC	P1,2	1	Commodity housing	N/A – under construction
		2	Commodity housing & office	1997 – N/A
		3	Resettlement housing	1994 – 1997
		4	Commodity housing & office	1992 – 1995
	P3	5	Resettlement housing	1991 – N/A
		6	Resettlement housing	1991 – N/A
		7	Resettlement housing	1991 – N/A
		8	Resettlement housing	1992 – 1999
		9	Resettlement housing	1996 – N/A
	P4	10	Resettlement housing	1993 – 1997
		11	Resettlement housing	1993 – under construction
		12	Resettlement housing	1993 – under construction
	P5	13	Resettlement housing	1992 – 1993
	P6	14	Commodity housing & office	1995 – 1997
		15	Resettlement housing	1996 – 1999
	P7	16	Resettlement housing	1996 – 1999
	P8	17	Commodity & Resettlement housing	1999 – under construction
		18	court	N/A
LUCDC	P9	19	Resettlement housing	1988 – 1997
		20	Resettlement housing	1989 – 1997
		21	Resettlement housing	1990 – 1997
		22	Resettlement housing	1990 – 1997
		23	Resettlement housing	1990 – 1997
		24	Resettlement housing	1991 – 1997
	P10,11,12	25	Commodity housing	1999 – under construction
	P13	26	Resettlement housing	1989 – 1994
		27	Resettlement housing	1991 – 1998
		28	Resettlement housing	1991 – 1998
		29	Resettlement housing	1991 – 1998
		30	Resettlement housing	1994 – 1998

	P14	31	Resettlement housing	1993 – 1999
		32	Resettlement housing	1993 – 1999
		33	Commodity housing	1993 – 2001
		34	Resettlement housing	1996 – 1999
		35	Resettlement housing	N/A
	P15	36	Commodity housing	1993 – N/A
		37	Resettlement housing	1993 – 1999
		38	Resettlement housing	1993 – 1999
		39	Resettlement housing	1996 – N/A
		40	Resettlement housing	1996 – N/A
		41	Resettlement housing	1996 – N/A
	P16	42	Resettlement housing	1991 – N/A
		43	Commodity housing	1993 – N/A
	P17	44	Commodity housing	N/A – under construction
XDC	P18	45	Commodity housing & office	1993 – N/A
	P19	46	Commodity housing	1995 – 1999
	P20	47	Resettlement housing	1991 – 1999
		48	Resettlement housing	1992 – 1999
		49	Resettlement housing	1997 – N/A
	P21	50	Resettlement housing	1986 – N/A
		51	Resettlement housing	1986 – N/A
	P22, 23	52	Resettlement housing	1995 – 1999
		53	Resettlement housing	1995 – 2001
	P24	54	Resettlement housing	N/A
		55	Resettlement housing	N/A
		56	Resettlement housing	N/A
		57	Resettlement housing	N/A

*: Years listed as completion time is the record of the time that the planning bureau checks the buildings. In Guangzhou, the planning bureau checks the buildings after the construction is completed.

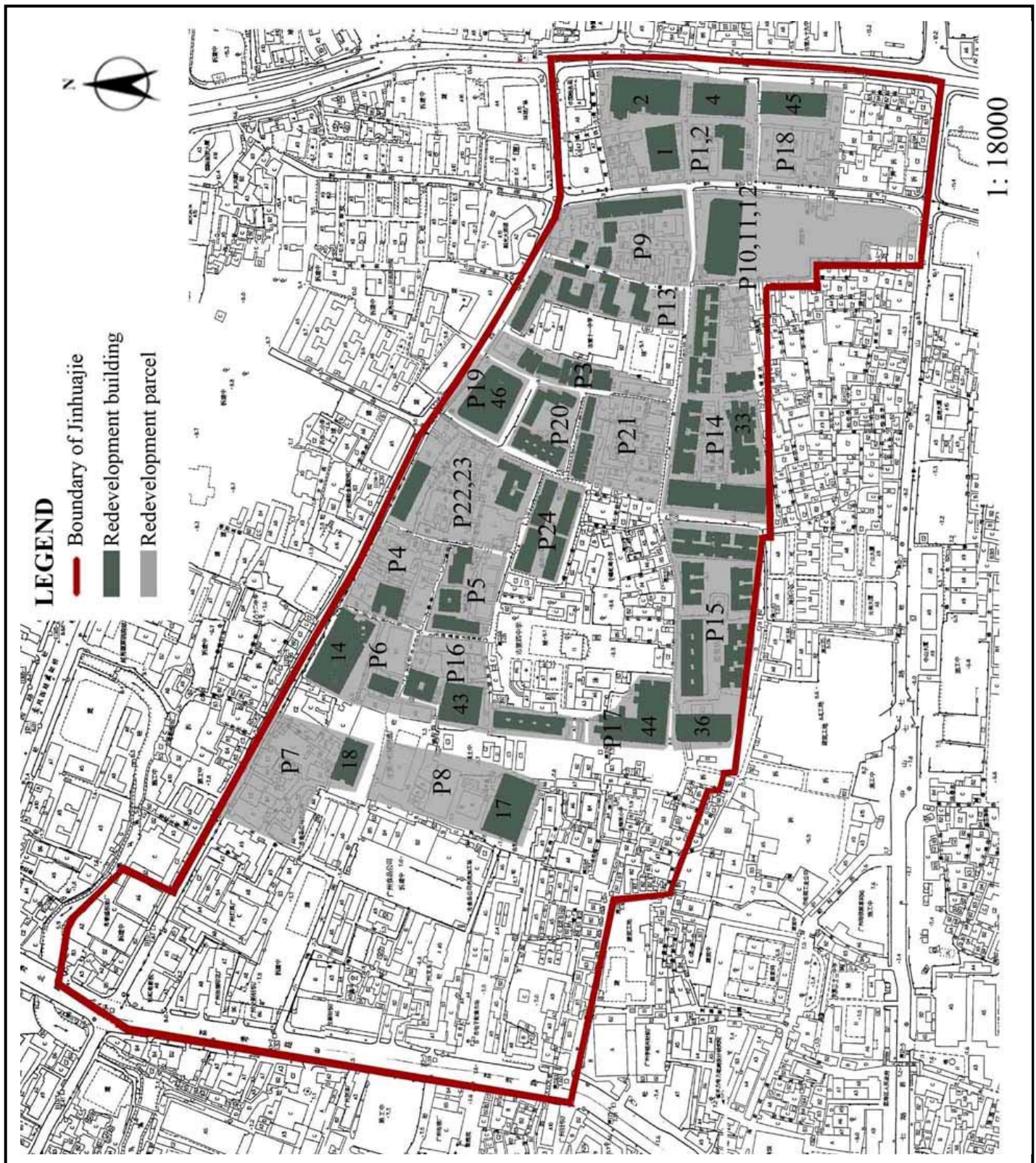
Source: records of Planning Permission in GUPB, Urban Planning Bureau Liwan Branch and author's survey

Table 6.3 Projects in Jinhua'jie's Urban Redevelopment Project

Land Use Type	Construction Area	Proportion
Resettlement housing	282,000 m ²	38.3%
Commodity housing & office	285,680 m ²	38.8%
Public facility	169,000 m ²	22.9%

Source: "Budget of Urban Redevelopment project of Jinhua'jie (1999)", files in Construction Bureau of Liwan District (accessed on Oct. 18, 2004 & interview)

Figure 6.8 REDC's Redevelopment in Jinhuaajie (Redevelopment Projects)



Source: record of Planning Permission in GUPB (accessed in June, 2004), Urban Planning Bureau Liwan Branch, maps in Guangzhou Urban Planning & Design Survey Research Institute (accessed in June, 2004) and author's survey

By exploring the redevelopment process of large-scale redevelopment projects of Jinhuajie, this study reveals the behaviors of residents, local government and developers.

6.3.2.1 Compensation to residents

On-site resettlement to residents

After REDCs received required permissions, the process of Jinhuajie's redevelopment projects started from demolition and compensation to the involved residents. Residents were on-site resettled. The REDCs met with each and every household and negotiated with them a precise settlement in terms of the resettlement housing, temporary shelters and other compensation. Following the standards set in "Guideline to Implementation of Urban Demolition and Resettlement in Guangzhou" (1992), the three REDCs resettled 7492 households in on-site resettlement housing (interview to officials in Urban Planning Bureau of Liwan District on Oct. 14, 2004). 44 resettlement buildings have been provided in Jinhuajie, accounting for 38.3% of the total construction area.

The most burdensome resettlement occurred with the occupants of housing owned by Overseas Chinese (about 100 house units, interview to manager in LUCDC on Apr. 7, 2005). Overseas Chinese owned housing was allocated to tenants during the 1950s and 1960s. Specifically in Guangzhou, the Overseas Chinese owned housing units had to be replaced twice in any redevelopment projects since the 1980s— once to provide new housing managed by the municipality to the tenant and once to provide the Overseas Chinese with a replacement for their demolished unit.

During the provision of on-site resettlement housing, it is observed that developers tend to have problems in raising development finance in time and in sufficient amounts. Provision of resettlement housings is severely delayed. With 45 resettlement housing projects only 2 of them had been completed within the time limit (by 1994). 21 projects have cost more than 5 years to complete. In addition, to cut down the cost, the REDCs tend to construct resettlement housings as 9-storey brick-made buildings¹¹ and the quality of resettlement housing is much lower than the commodity housing constructed in Jinhuaajie (see Figure 6.9).

Figure 6.9 Quality of Resettlement Housing and Commodity Housing



Above: on-site resettlement housing



Right: commodity housing (Ximenkou Square)

Source: photos taken by the author in August, 2004

Compensation for temporary settlement, moving and delay of the projects

Besides on-site resettlement, all concerned households have also received extra payment

¹¹ It is regulated that lift is not required in buildings with 9 or less storeys in Guangzhou till 1996.

for moving expenses, temporary shelters, temporary shutout, etc. As shown in Table 6.4, the developers had to cover all the expenses for moving and temporary settlement. The standard of the compensation actually kept rising with the economic growth.

Table 6.4 Compensation of Moving Expenses and Temporary Settlement in Jinhuajie

	Price (¥/person)	Price (¥/Household)
Initiate Fee for moving (residential)		400
Compensation to moving expense		200
Initiate Fee for moving (commercial)		600
Compensation to moving expense		800
Compensation of temp shutout (commercial use house)		45000
Rent for temp shelter	Covered by the REDCs	
Fees for staying with relatives	45 per month	
Transportation fee for temp shelter	15 - 45 per month	

Source: “budget of Urban Redevelopment project of Jinhuajie (1989)”, files in Construction Bureau of Liwan District (accessed on Oct. 18, 2004)

The residents would also be paid for the delay of redevelopment projects, if it is the case –compensation listed in Table 6.4 would rise to 150% of the originally expected amount. In some cases, the figure rose up to 200% (interview to manager of LREMC on Nov. 7, 2004 and manager of LUCDC on Apr. 7, 2005). The delay charge actually became a big burden to the developers as the demolition was completed very early but the new construction did not catch the pace in most projects. LUCDC once paid ¥5 million a year as the extra delay charge (interview to manager of LUCDC on Apr. 7, 2005).

6.3.2.2 Provision of public facilities

Required by the government, the REDCs had to provide public facilities to the local government. During the redevelopment, the REDCs were required to provide public facilities to serve the whole *Jiedao*, district or even the whole city. Development of

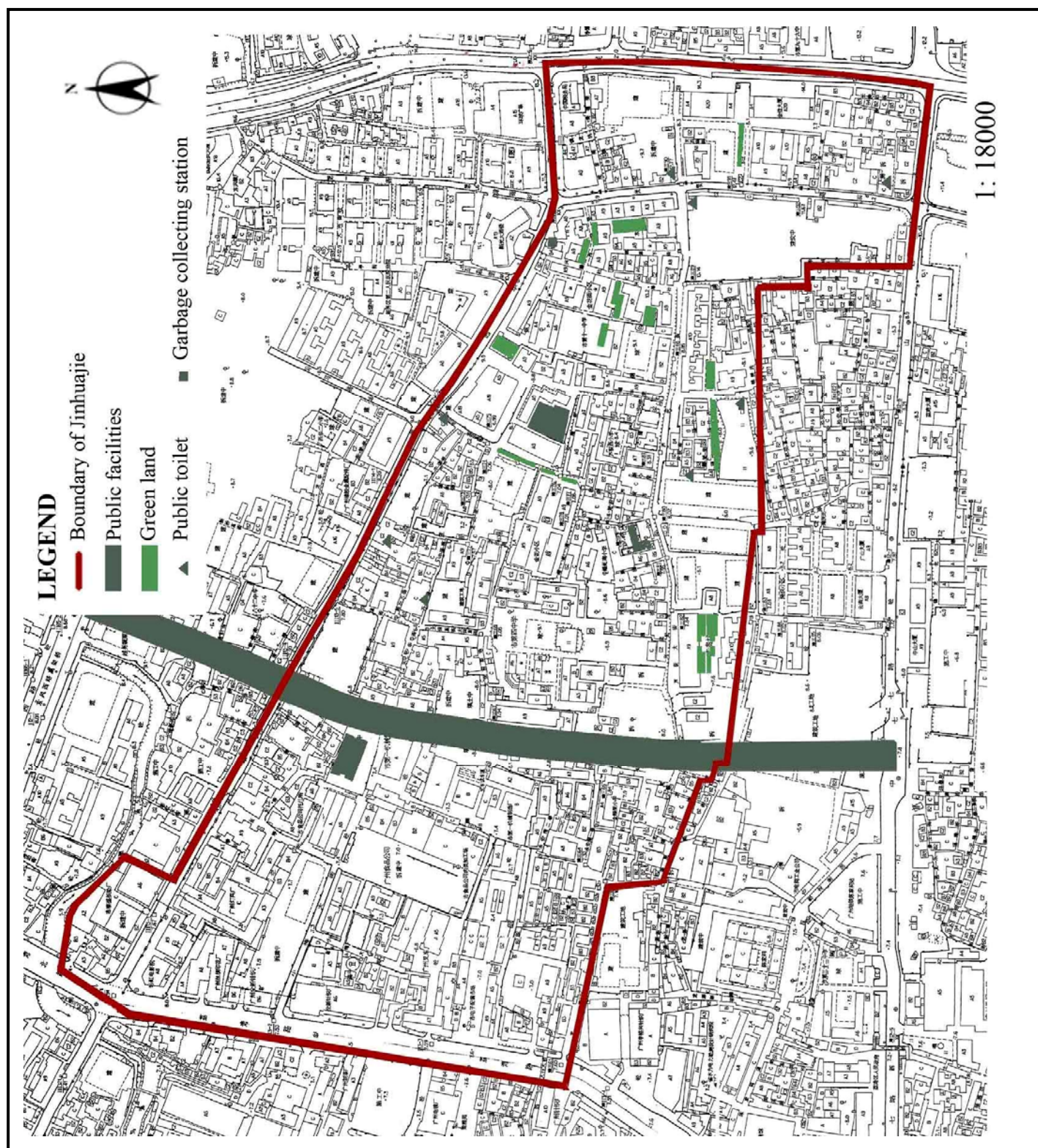
infrastructure accounted for a significant cost in the whole redevelopment project and were finally transferred free of charge or at very low cost to the local government. In Jinhuajie, besides the infrastructures serving the whole *Jiedao*, the REDCs provided assembled land for the construction of Kangwan Road at no cost to the municipality and provided the new office for Liwan Court¹² (by LREMC alone) at very low cost (see Table 6.5; Figure 6.10).

Table 6.5 Budget of Provision of Public Facilities in Jinhuajie's redevelopment project

	projects	Cost (thousand Yuan)
Urban infrastructure	Road	9600
	Greenbelt	3750
	Lamp	1200
	Water supply	15,000
	Power supply	30,000
	Drainage	24,240
	Total	83,790
Public amenities	primary school	1,907.15
	nursery school	1,805.65
	culture Station	1,153.6
	sanatorium for elders	400.4
	offices for <i>Jiedao</i>	192
	electricity modification rooms	256
	Public toilets	175
	garbage collecting stations	115
	deposit station for bicycles	2,500
	Total	12,910

¹² The Liwan Court paid 1.5 million Yuan to LH which is said not enough to cover the cost of demolition, let along the cost of construction (source: interview).

Figure 6.10 Public Facilities Provided by the REDCs in Redevelopment of Jinhuaajie



Source: “budget of Urban Redevelopment project of Jinhuaajie (1989)”, file in Construction Bureau of Liwan District, accessed on Oct. 18, 2004 and Maps in GUPB, (accessed in June, 2004)

6.3.2.3 Development of commodity housing

Due to the limited funds of the REDCs, redevelopment projects were planned to be financed through the sale of marketable commercial units when they were initiated. Taking fees and taxes, construction costs and urban infrastructure costs into consideration, the total cost per marketable residential area was estimated at ¥2592/m² which was far more above the sale price of commodity housing in Jinhua (1,300 / m² in 1989) (Wei, 1997) and other comparable commodity housing in Guangzhou (between ¥1,700 to ¥2,400 / m² in 1992) (World Bank, 1993). It was not until 1991 when restriction on real estate prices was relaxed that the price of commodity housing rose dramatically in the first upsurge of real estate development.

Profitable redevelopment projects attracted foreign developers and domestic investors with the capital that REDCs lacked. Development of some commodity housing and offices were thus carried out in the form of joint venture between the REDCs and investors. For each commodity housing or office project, a project company formed by the local REDC and investor would be established to take charge of the development (see Table 6.5).

Foreign investment in real estate development in Guangzhou urban area reduced dramatically when the trough in the real estate market emerged in 1995. Foreign investment started to disengage from Jinhua's redevelopment projects. In addition to that, the REDCs were eager to obtain the capital for on-site resettlement housing development so as to reduce the amount of delay charge. Transfer of leasehold of land

parcels with pre-set planning control parameters was adopted (see Table 6.6).

Table 6.6 Commodity Housing and Office Projects in Jinhuaajie

No. in Figure 6.8	Project name	REDC	Foreign/ private developer
<i>Joint-venture</i>			
2	Heyou Mansion	LREMC	Jifeng (HK)
4	Liwan Mansion	LREMC	Jifeng (HK)
14	Jinping Mansion	LREMC	Construction Commission of Kaiping City
33	Jinhuayuan	LUCDC	Weiye (HK)
36	Kangwangge	LUCDC	Changjian (HK)
43	Jinxi Mansion	LUCDC	N/A
44	Likang Mansion	LUCDC	Nanya (HK)
45	Jinxin Mansion	XDC	Xinlian (HK)
46	Gangfeng Mansion	XDC	N/A
<i>Transfer of land leasehold</i>			
1	Liqingju	LREMC	Wanji (HK)
17	Jiachengyuan	LREMC	Suiyin (GD)
25	Ximenkou Square	LW	Yingfa (HK)

Source: interview to manager of LREMC on Nov. 7, 2004, Apr. 8, 2005 and manager of LUCDC on Apr. 7, 2005

6.3.2.4 Flexible planning control

Often, planning procedures and operations are discretionarily explained and manipulated by the government in the transitional China (Xu, 2001). This phenomenon has also been observed in urban redevelopment in Jinhuaajie.

In the comprehensive redevelopment projects, Land Use Plan of Jinhuaajie (1988) defined how land parcels should be developed. Land Use Plan was approved by Liwan Urban Planning Bureau as the statutory document to control the redevelopment of Jinhuaajie area. Based on resettlement requirement, environment capacity and the expected gain of redevelopment projects, the Land Use Plan defined the allowed land

use type and maximum plot ratio for each parcel.

In practice, prior planning permissions were required for development of each parcel. Development application for each parcel was evaluated by the GUPB and a Planning Permission would be issued with land use planning parameters attached such as land use and plot ratio. By study both the Land Use Plan of Jinhua jie and the Planning Permission of each parcels, it has been discovered that discrepancies were overwhelming in terms of the land use type and plot ratio (see Table 6.7).

Table 6.7 Change of Plot Ratio of Parcels*

Parcels with discrepancies in plot ratio (8 parcels)		
Parcel No.	Original Plot Ratio	Current Plot Ratio
1,2	2.5	4.74
4	2.0	2.25
7	2.6	4.0
10,11,12	2.5	6.08
21	2.1	3.0
Not Known (16 parcels)		
Parcels with discrepancies in land use (6 parcels)		
Parcel No.	Original land use	Current land use
1,2	office	Commodity housing
10,11,12	office	Commodity housing
16	One meat and vegetable market required	temporary commercial use
Parcels without discrepancies (18 parcels)		

* parcel numbers refer to Figure 6.8.

Source: GUPB files (accessed in August, 2004)

An in-depth interview unveils that the REDCs did not pay any extra land leasing payment for the increase of plot ratio or the change of land use (interview to Mr. Shao & Mr. Cao, referring to Appendix I). “The resettlement was costly, especially when the construction of resettlement housing is delayed due to the market problem. High

compensation for the temporary shelter and delay of resettlement became a heavy burden for us. Liwan Urban Construction Co. once paid 5 million a year for the delay charge. The plot ratio was too low for REDCs to cover the cost. If the government didn't offer any help, the redevelopment projects could not go on. And this result was not what the government wanted to see. And as you know, we were in a close relationship with the local government, some of our managers were sent by the local government. For us, we just requested to the Construction Commission and Urban Planning Bureau of Liwan District. I myself once worked in the Urban Planning Bureau of Liwan District, we changed the plot ratio or land use type for the developers after bargaining.” said the Vice manager of Liwan Urban Construction Co.

6.3.3 Development of SOE's land

In 1996, the issue of “Blueprint for the Implementation of Experiments to optimize Capital Structure of Guangzhou” drew up the curtain of the relocation of industries in Guangzhou. SOE reform started to rearrange the resource within industrial groups and large amount of factories are closed or relocated to urban peripheral areas. In Jinhuajie, there are 6 large factories located in the west part due to the industry development from 1949 to 1978, occupying 11 land parcels. Since 1996, these factories have been either relocated or closed and their occupied land plots are released for redevelopment (see Table 6.8). The local government also tried to push the relocation of SOEs and redevelopment of their occupied land because of environment protection. In 1995, “the approval of the relocation of Quanxin Knitting Factory for environmental protection”

was issued by Guangzhou Environment Protection Bureau to suggest one factory in Jinhuajie to relocate. In 1997, the government of Guangzhou issued “Environmental Protection Plan of Guangzhou” which requires 68 factories that produce heavy pollution to move out of the urban areas. In Jinhuajie, 4 factories had been listed in the 68 factories. Requirement of environment protection increased the cost of production in central areas and objectively stimulated industries to relocate.

Within 5 year, all industrial land in Jinhuajie has changed from industrial use to residential or commercial use (see Table 6.9, Table 6.10, Figure 6.11). Redevelopments of SOE’s land in Jinhuajie seem complicated and different from case to case (see Table 6.8).

Table 6.8 Reform of SOEs in Jinhuajie

Factory	Present status	Supervisory Industrial Group
Quanxin Knitting Plant (A)	Incorporated and relocated to Huadu Town	Guangzhou Weaving Group (GWG)
Guangzhou Silk Printing Plant (B)	Incorporated and relocated to Haizhu District	Guangzhou Weaving Group (GWG)
Guangzhou Taisheng Dyeing & Weaving Factory (C)	Incorporated and relocated	Guangzhou Weaving Group (GWG)
1 st Manufactory (D)	incorporated and relocated to Huadu Town	Guangzhou Motor Generator Group (GMGG)
Guangzhou Food Company (E) Abattoir	closed	Guangzhou Food Group (GFG)
Automobile team of Commercial Conveyance Company (F)	closed	N/A

Source: files in GUPB archives (accessed in June, 2004)

Table 6.9 Redevelopment of SOE's Land

Parcel No	Original land user	Mode of land disposal	New land use	Initiate time	Complete time
1	Factory A	joint-venture with GWG Jinlun Real Estate Development Company	Commodity housing/ office	1995	1996
2	Factory A	joint-venture with GWG Jinlun Real Estate Development Company	Commodity housing	1995	1996
3	Factory A	asset transfer to Huaxia Kanglong Co.	commercial	2001	2001
4	Factory A	joint-venture with GWG Jinlun Real Estate Development Company	Commodity housing	1999	Not completed
5	Factory A	Change of land use	office	N/A	N/A
6	Factory B	asset transfer to Linan Art Institute	education	N/A	N/A
7	Factory C	joint-venture with Anye Real Estate Development Company	Commodity housing/ office	1999	
8	Factory D	asset transfer to Guangzhou Traffic Artificer School	education	2002	2002
9	Factory D	asset transfer to Lihua Real Estate Management Company	Commodity housing	2000	In construction
10	Factory E	joint-venture with Tianli Development Company	Commodity housing	N/A	1999
11	Factory F	Change of land use as Liwan Electric Equipment Market	commercial	N/A	

Source: files in GUPB archive (accessed in June, 2004) & author's survey

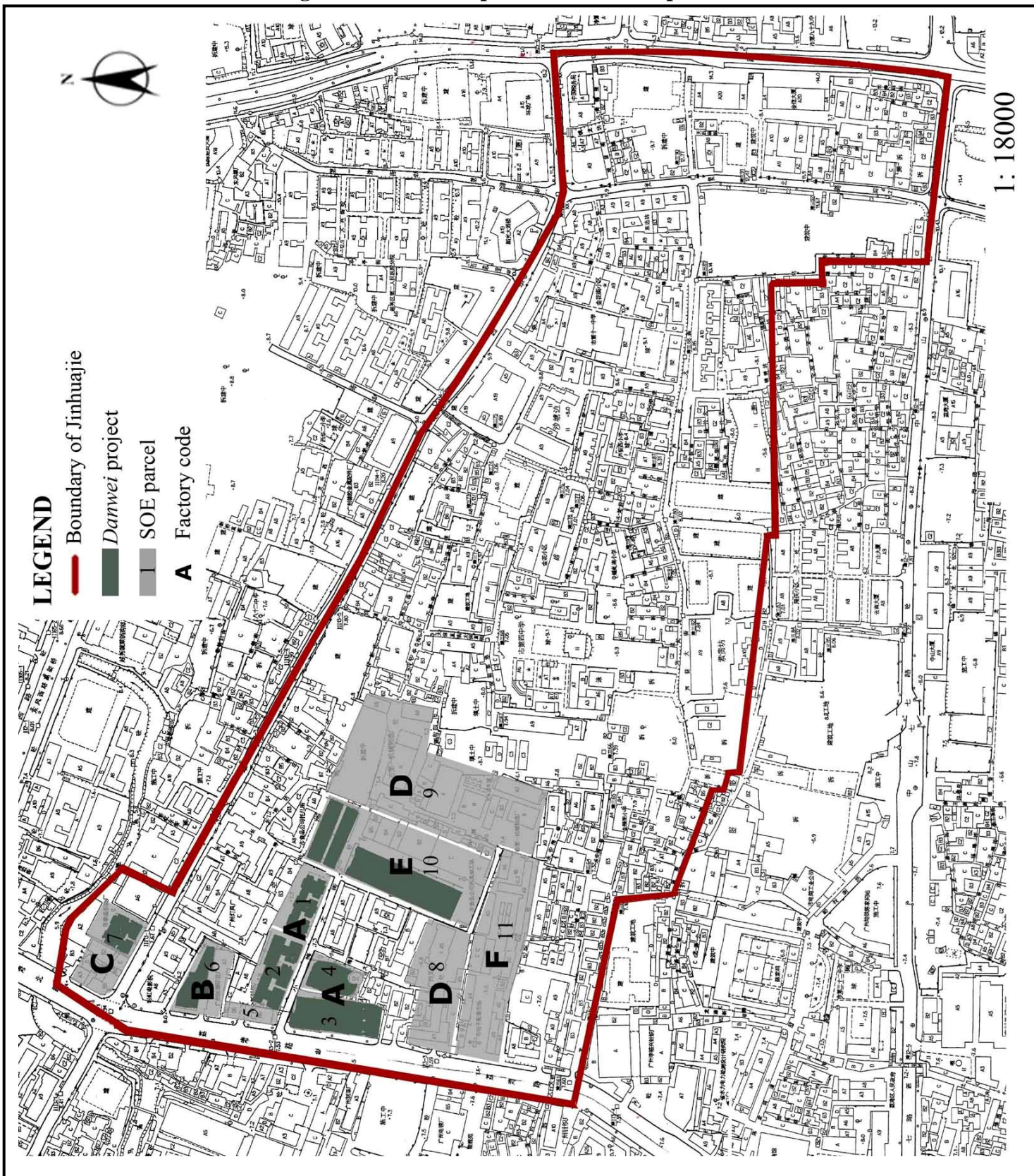
Table 6.10 Redevelopment Process of SOE Land Redevelopment Projects in Jinhua

factory	Land parcel	Area	1 st attempt to redevelop	result	2 nd attempt	result	3 rd attempt	result
A	1	2734 m ²	Apply for housing development (1993)	Approved by GUPB but not carried out	Factory A redeveloped the land as commodity housing (Jinlun Mansion) together with GWG Jinlun Real Estate Development Co. (1995)	Approved by GUPB and implemented		
	2	3305 m ²	Factory A redevelop the land as commodity housing (Jinnu Mansion) together with GWG Jinlun Real Estate Development Co. (1995)	Approved by GUPB and implemented				
	3	N/A	Rebuilt and enlarged the existing workshop	Approved by GUPB and completed in 1996.	The asset was transferred to Huaxia Kanglong Co. and transformed to a shopping centre. Huaxiakanglong was responsible for Factory A's debt and had to pay for the land leasing payment			
	4	2757 m ²	Factory A redevelop the land as commodity housing (Huakangyuan) together with GWG Jinlun Real Estate Development Co.	Approved by GUPB in 1999 and till now the project has not been completed.				
	5	N/A	Redecorated and changed the land use type	Currently used as Quaxin Business Centre				
B	6	3599 m ²	Land use type changes from workshop to commercial use (1996)	Approved by GUPB but not carried out due to financial problem	Factory B redevelop the land as commercial building with commodity housing together with GWG Jinlun Real Estate Development Co. & Guangzhou Hailang Development Co.	Failed due to financial problem	Factory B transferred the asset to Linan Art Institute as teaching buildings	Implemented

					(1997)			
C	7	2625 m ² + 3217 m ²	Parcel 1 (3217 m ²) was expected to redevelop for commercial and office use with Jinlun; Parcel 2 (2625 m ²) was redeveloped with Anye Real Estate Development Co.	Only one project (Parcel 2) was carried out and completed in 1997.				
D	8	7102.3 m ²	Applied for office and housing development in 1996	Completed and was partially used for commercial use	Assets were transferred to Guangzhou Traffic Artificer School for 15 million in 2002	Guangzhou Traffic Artificer School must educate workers for (GMGG)		
	9	12938 m ²	Land was transferred to LREMC in 2000	LREMC resettled Factory D to Huadu (transfer process was not clear)				
E	10	6926 m ²	In 1993, Factory E redeveloped a land parcel of 1800 m ² with SRF	completed	Together with Tianli Development Company, Factory E redevelop the land for commodity housing (Huangshanghuang Mansion)	Completed (transfer process was not clear)		
F	11	N/A	F changed the land use type and used its assets for Liwan Electric Equipment Market					

Source: record of Planning Permission in GUPB (accessed in June, 2004) & author's survey

Figure 6.11 Redevelopment of SOE occupied Land



Source: record of Planning Permission in GUPB (accessed in June, 2004), Urban Planning Bureau Liwan Branch, maps in Guangzhou Urban Planning & Design Survey Research Institute (accessed in June, 2004) and author's survey

Redevelopment of SOE's land was complicated as most factories tried several ways to redevelop. In practice, the SOEs chose the order of redevelopment: changing land use type first, finding a partner to redevelop land if in funding difficulties, and transferring land to new land users by negotiation if redevelopment project was not able to be carried out.

1. Redevelopment by SOEs

Shown in Table 6.10, within 11 land parcels, 8 parcels have been planned to change land use type and be redeveloped by SOEs themselves as the first attempt for redevelopment. Generally, part of the new buildings would be housing provided for staff or offices used by SOE itself, and other parts would be sold or rented out as shops. For example, Factory **D** built a complex for both residential and commercial use on land parcel 8. There were some shops provided on the first floor. These shops were rented to merchants. Factory **E** did the same on one parcel of its land. Factory **A** renovated one of its workshops and changed its use to Quanxin Business Centre, renting out space as offices to small companies (see Figure 6.12). Factory **F** did not even renovate their buildings but used them as offices of Liwan Electric Equipment Market (see Figure 6.12).

Figure 6.12 Photos of Some Redevelopment Projects



Left: Liwan Electric Equipment Market



Right: Quanxin Business Centre

Source: photos taken by the author in August, 2004

However, it was found that commercial and housing buildings provided by SOEs could not meet the requirement of the market and no investors would like to risk on such projects. Although Factory **B** attempted to use its workshops for commercial use, it failed in financing the project. Only two projects survive in the market competition. One is Liwan Electric Equipment Market which was established in the early 1990s as one of the pioneers of this service in Liwan District. The other one is Quanxin Business Centre which was well decorated (see Figure 6.12). Other housing or commercial building projects carried out by SOEs had all been redeveloped as join-venture projects or transferred to new land users. As long as these redevelopment projects were profitable, the SOEs would not hand over its land use rights and the right to enjoy the revenue alone.

2. Joint-venture

To provide buildings which could meet the requirement of the market, SOE need capital.

If in funding difficulties, SOEs would seek and woo development capital to form a

partnership. Joint-venture between SOE land user and developers was found in the redevelopment of 9 land parcels of 5 factories. Most of the completed projects were commodity housing. Generally, the completed housing units were sold off and the revenue was split between the SOE and developer.

Use of SOE's land was supervised by the industrial group that the SOE belongs to. Inevitably, the group subordinated REDCs became the first one obtaining the opportunity to redevelop SOE's land. For example, GWG Jinlun Real Estate Development Company was established in 1993 under the supervision of GWG to redevelop the occupied land by factories within GWG. In Jinhuaajie, the occupied land of GWG factories was all firstly attempted by joint-venture between the factories and Jinlun. Only when the market is extraordinary flourishing in 1995, did the projects invested by Jinlun managed to complete (Parcel 1, 2 with Factory **A**). Other projects had all failed due to the financial problems (Parcel 4 with Factory **A**, Parcel 6 with Factory **B**, Parcel 7 with Factory **C**).

When the group subordinated REDCs could not offer the capital that the redevelopment projects required, the SOEs would resort to private developers. Factory **C** redeveloped one land parcel with Anye Real Estate Development Co. – a private development company. And Factory **E** redeveloped its land to Huangshanghuang Mansion with Tianli Development Company. Partnership between the SOEs and private developers actually provided an opportunity for developers in the private sector to grow as it avoided the

large outlay of funds in the mode of land leasing (Zhu, 2004). One typical case is Tianli Development Company (TDC). It was a small company with 10 staff in 1995, but it had grown to a top real estate company with 550 million registered capital when it was reorganized to Fuli Estate Co. Ltd. in 2001. In the late 1990s, TDC had carried out 23 projects (over 3000, 000 m² of construction area) to redevelop SOE occupied land (<http://www.epvalley.com/ztbd/7.htm>; <http://finance.sina.com.cn/crz/20031018/1050480336.shtml>, accessed on March 8, 2005). One of these projects is Huangshanghuang Mansion in Jinhuajie.

3. Land transfer through negotiation

Regulated by the municipality, at least 44% of the land leasing payment has to be handed over to the government when a SOE transfers the occupied land. Land transfer thus becomes the last choice for the SOEs to capitalize the value of their land user rights. However, not every SOE could find capital to redevelop its occupied land by themselves or joint-venture. During the first few years of the 21st century, SOEs relocated in the late 1990s were facing the threat of losing their land use rights. As the last straw, land transfer was adopted by SOEs to capture the land profits.

In practice, SOEs negotiate with the buyer for better compensation but not higher land leasing payment. For example, Factory **D** obtained RMB ¥ 15 million from transferring one land parcel and assets on it to Guangzhou Traffic Artificer School. As return, Guangzhou Traffic Artificer School could pay less land lease payment. Factory **A** transferred all its debts to Huaxiakanglong as the exchange of the use rights of Land

Parcel 3 and the buildings on it, and thus Huaxiakanglong paid less for the land transfer. Similarly, Factory **B** transferred the land parcel and assets to Linan Art Institute when redevelopment project failed. As the exchange, the SOEs would apply to the municipality for cutting down of land leasing payment. Generally, land leasing payment is charged as 80% as standard approval price in a SOE land redevelopment project. In some cases, a further 20% discount will be granted if the new use is evaluated as the ‘optimal use’ (Zheng, 2001).

6.3.4 Facility Improvement by the Municipality

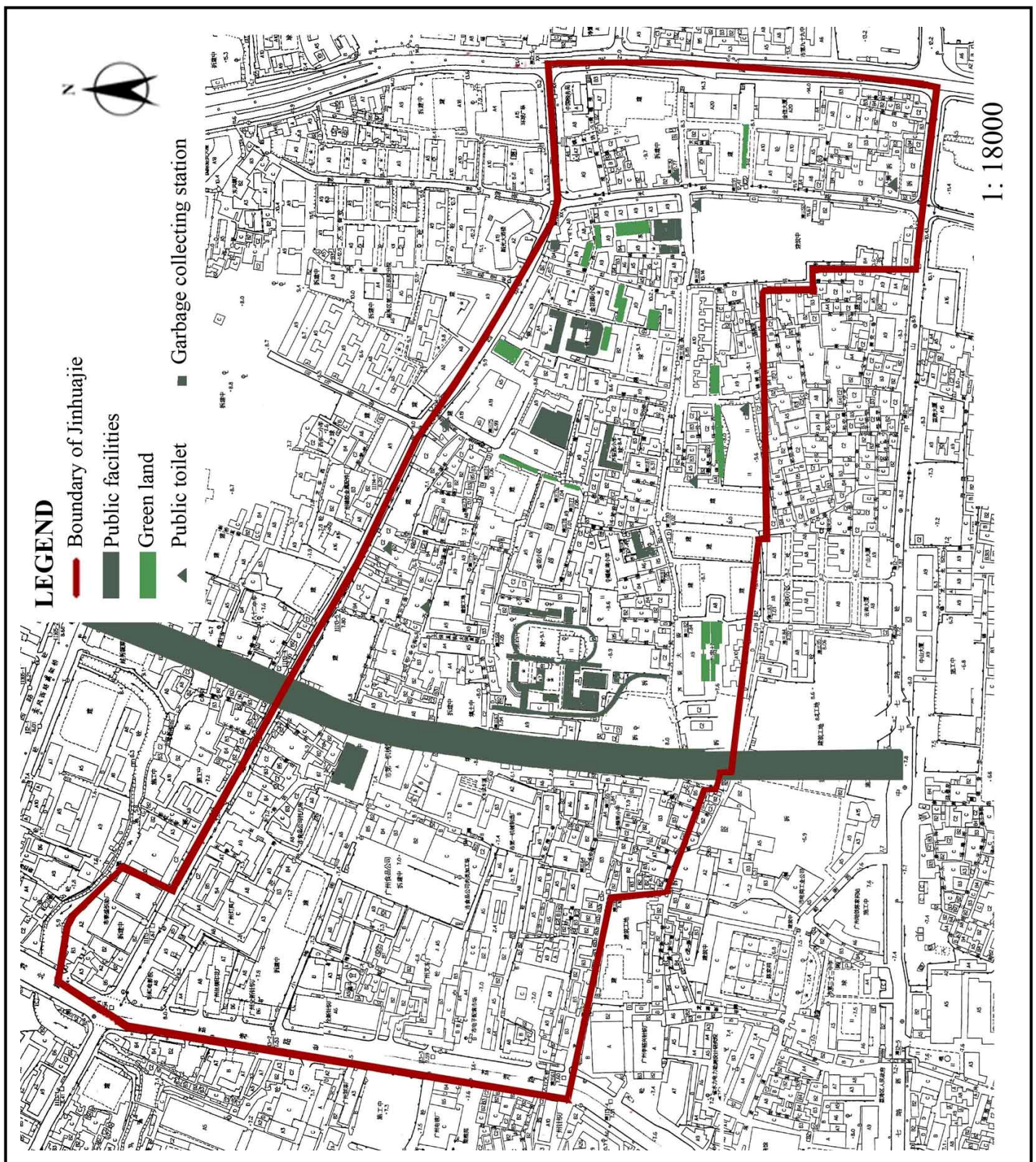
Public facilities were provided by different sectors in the government. Jinhuaajie is an area with top secondary and high schools. Its predominance in education was strengthened during the urban redevelopment process of Jinhuaajie. Shown in Table 6.11, due to the limited fund, only one case of enhancement of school was taken in the 1980s. When the local government gained more revenues from economic growth, enhancement of educational facilities and urban infrastructures accelerated since the early 1990s.

Table 6.11 Development of Public Facilities by the Municipality

No.	Provider	Use Type/ project	Year
1	Ludixi Primary School	education	1980
2	4th Middle School	education	1991
3	Education Bureau of Liwan District*	nursery school	1994
4	11th Middle School	education	1995
5	Guangzhou Road Expansion Office*	Kangwang Road	1996
6	Education Bureau of Liwan District	4th Middle School	2001

* The land for the construction of Kangwang Road and nursery school was provided by the REDCs in the comprehensive urban redevelopment project.

Figure 6.13 Public Facilities Projects in Jinhuaajie (1978-present)



Source: record of Planning Permission in GUPB (accessed in June, 2004)

6.4 Summary

This chapter summarizes the redevelopment process of Jinhuaajie which answers one of the research questions – what patterns and processes of land redevelopment have been generated in transitional China? Different players have been involved in the redevelopment process and special characteristics of the redevelopment have been observed.

1. rapid large scale urban redevelopment

In the small area of Jinhuaajie (44 ha), 92 projects have been carried out within 25 years. Jinhuaajie has changed from a dilapidated residential area with concentrated light industries to an area of housing, commercial buildings, offices and new urban infrastructures. Old dilapidated neighborhoods were demolished to make way for new construction which aimed at produce a landscape of “world city” in southern China (Yeh & Wu, 1999). What has been produced includes not only modern commodity housings and offices but also 9-storey housing with basic facilities (refer to Figure 6.4). Also, the factories in Jinhuaajie have been moved out and their land has been provided for commodity housing, office and shopping centre development.

2. evolution of the redevelopment modes

Corresponding to the property rights evolution in the transition, different redevelopment types were prevalent in different stages of the transitional era and provided different landscapes. Jinhuaajie experienced three different redevelopment types: housing, workshops and offices developed by *danwei* for their own use, comprehensive urban

redevelopment project and development of SOE's land.

a. the 1980s: Housing, workshops and offices developed by *danweis* for their own use

After decades of stagnation, urban redevelopment was first carried out by *danweis* in small quantity for the provision of housing and facilities for its own use following the traditional socialist tight relationship between *danweis* and urban development. Through scattered development of multiple-storied housing, workshops and offices, *danweis* first changed the landscape of dilapidated neighborhood during the 1980s. Comparing with clear acquisition of rural land in the urban periphery during this period, supply-side constraints hampered urban redevelopment of central areas in Chinese cities. In Jinhuaajie, urban redevelopment was stagnated for 30 years. Even after the economic reform when much more investments could be spend on land redevelopment, only 17 projects had been carried out over 10 years.

b. the 1990s: comprehensive large scale urban redevelopment project

When the urban reform started in 1988, the municipality obtained more autonomic power to arrange the urban development and redevelopment in Guangzhou and became a so-called developmental state which was hungry for the economic growth and urban development. It advocated urban redevelopment in order to enhance land value and to provide better environment for economic growth. Large scale redevelopment projects were carried out. 57 buildings were constructed in Jinhuaajie in 10 years. In addition to the resettlement housing for residents, commodity housing and offices, the government subordinated REDCs also provided public facilities in Jinhuaajie. As the exchange, the

developers obtain the land leasehold at no payment to the government and flexible planning control subject to negotiation over development.

c. the late 1990s: development of SOE's land

In the early 1990s, the government carried out the SOE reform within industry groups to restructure assets and resources. Associated with the SOE reform, a large amount of factories were relocated to urban peripheral areas and their occupied land was released for redevelopment. SOE occupied land in Jinhua jie was redeveloped within 5 years. In practice, SOEs adopted the following order of redevelopment. First, the SOEs would change of land use or redevelop the land by themselves; then, joint-venture between SOEs and developers for commodity housing projects would be chosen if the first option was in finance problems. If both failed, SOEs would transfer the land by negotiation.

3. flexible planning control

Often, the planning procedures and operations are discretionarily explained and manipulated by the government in the transitional China (Xu, 2001). This phenomenon has also been observed in land redevelopment in Jinhua jie. A very flexible land use planning system subject to negotiation was observed. Some planning control parameters such as plot ratio and land use types have been changed upon the request of the government subordinated REDCs. In the late 1990s, frequent change of redevelopment plans had been offered by the local state to promote the redevelopment of SOE's land.

7 INSTITUTIONAL CHANGES FOR LAND REDEVELOPMENT: PROPERTY RIGHTS ANALYSIS

7.1 Introduction

Special characteristics of land redevelopment in the study area are structured by the evolving institutions. This chapter discusses the institutional changes for land redevelopment via a property rights approach. Interactions among land users, developers and the state were always structured by the property rights of the actors (Webster & Lai, 2003). It is generally understood that those who played a pivotal role in the central plan system have a vested interest in maintaining their rights and are in a strong bargaining position to influence institutional changes towards the socialist market economy (Zhu, 2005). Institutional changes are thus gradual. Based on the study of land redevelopment processes in Jinhuaajie, this chapter discusses the evolution of property rights over land in land redevelopment in the transitional China.

7.2 Initial Property Rights Structure: Land Use Rights of Existing Land Users

Redevelopment in Jinhuaajie in the 1980s reveals the property rights setting before the urban reform. Under the socialist system of the planned economy, property rights over land were theoretically controlled by the state and excluded from economic transaction. Before the 1978 economic reform started in 1978, development of Chinese cities was carried out by *danweis* on the state allocated land. As for urban housing in the central

areas, residents were stratified into the tenure of private, workplace and municipal housing according to their socio-economic status (Logan *et al.*, 1999). There were no land markets, and land users were not allowed to transact or transfer their land use rights. However, as what has been emphasized by Marcuse, "... in socialist systems, the right of use ...even if referred to as 'tenancy', equaled or exceeded in many ways those conventionally associated with 'ownership'" (1996: 135). Land use rights of existing land users set up the precondition for redevelopment since the urban reforms. In detail, property rights of residents and *danweis* have been summarized as following:

1. Land user I: residents

In Chinese cities, urban land is owned by the state. Even for the owner of private houses, they are tenants of state-owned land. In most urban redevelopment projects, residential relocation is passive for tenants as the processes of demolition and resettlement for redevelopment projects are regarded as the reassignment of state-owned land by the state. The passive relocation, i.e. the relocation not initiated by households, is caused by municipal infrastructure development, real estate development, *danwei* housing relocation, and government housing congestion alleviation programmes (Wu, 2004). However, passive relocations are not necessarily equivalent to involuntary ones, as the households are offered the rights to bargain for the compensation. Compensation is awarded according to a pre-set standard and there is a large scope for bargaining between the construction units and households. In Guangzhou, residents had to be on-site resettled for any project of redevelopment as the compensation for the

demolished housing from 1984 to the middle 1990s¹³. This was equivalent to the transfer of a tenant's land use rights to the new sites at similar locations.

In central areas of Chinese cities, there are also a large amount of households living in state-owned public housing (either provided by the municipal housing bureau or *danweis*). With the aim of seeking collaboration of residents and maintaining social stability, the government in practice recognizes tenancy rights. There is little difference between the housing owners and tenants in the compensation schemes as that has been revealed in the case study of Jinhua jie. According to Table 7.1, as lease relationship could not be cancelled, what the tenants could claim through the compensation was almost the same as the actual owners do, except for some payments for temporary shelters. Later, the new public housing units were sold to the tenants at a discounted price. Therefore, the demolition of housing was compensated with more than what would be derived from the tenancy in a market system during the land redevelopment process (Wu, 2004).

Residents can bargain for compensation because their land use right has been strong under the socialist system (Marcuse, 1996). Due to the fiscal shortage and huge compensation to residents in land redevelopment, the government could hardly carry out any redevelopment projects.

¹³ In 1997, the Guangzhou municipality issued "Regulation of Urban Demolition and Resettlement in Guangzhou" (1997) in which the requirement of on-site resettlement for residents was discarded for the first time. Requirement of on-site resettlement was listed as Clause 36 in the "Guideline to Implementation of Urban Demolition and Resettlement in Guangzhou" (1992) and Clause 16 in "Measures of Land Acquisition and Urban Demolition and Resettlement in Guangzhou" (1984).

Table 7.1 Compensation to land and housing occupants in Urban Resettlement in the 1980s

land and housing occupants	Compensation
Private housing owners	a. On-site resettlement housing based on the size and quality of the demolished structures b. No rent payment for temporary shelters.
Public housing * tenants	a. Lease relationships should be kept. b. Rent payment for the temporary shelters provided by the construction units would be charged at 70% of the regulated standard.
Private housing tenants	a. Lease relationships should be kept. b. Rent payment for the temporary shelters provided by the construction units would be charged at 70% of the regulated standard.

* Public housing refers to the municipality managed housing and *danwei* managed housing

Source: “Measures of Land Acquisition and Urban Demolition and Resettlement in Guangzhou” (1984) & author’s survey

2. Land user II: *danweis* (including SOEs)

Following the institutional system of the centrally-planned economy, land was allocated by plans set by the central government. The central planning system allocated urban land to *danweis* through administrative channels which did not impose a rental arrangement on them (Zhu, 2002). Being the units through which the state organized production and distribute social welfare, *danweis* in practice controlled state assets assigned for utilization (Li, 1993). It is very hard for the state as the land owner to retrieve land once land was assigned to *danweis*. Proof has been observed in the case of Jinhuajie. Guangzhou Normal College (GNC) failed in acquiring the land used by the 1st Manufactory although GNC had already obtained the permission from the government for reallocating the land. This is due to the right of *danwei* to refuse

handing in the land it occupied. This case also reveals that unlike the land used by residents, land occupied by *danweis* could not be reallocated by simply compensation for land use.

Due to the land use rights of existing land users, the land redevelopment was hampered. In Jinhua jie, urban redevelopment was stagnated for 30 years. Even after the economic reform when much more investment could be made on urban land redevelopment, only 17 projects were carried out from 1980 to 1988. However, the decentralization of the economic decision-making process resulted in the local government taking up responsibility for the urban development projects. This in turn instigated the local government into taking a greater interest of, and advocating development as a way of pursuing economic growth. The local government took some measures to initiate institutional changes to promote land redevelopment in central cities. Due to the different land use rights of residents and *danweis*, the institutional changes became gradual.

7.3 Property Rights under the Coalition between the Local Government and Developers

7.3.1 Coalition between the local government and developers

Decentralization of decision-making offers the local state autonomy to act for its own interest and the government finally altered its path to the pursuit of economic growth. The urban reform gave the government the discretionary power to manage land uses. The governments at various levels are much more development-oriented and committed

to growth than before (Zhu, 1999). The socialist political state is thus changing to a socialist developmental state (Oi, 1996; Zhu, 1999). The emerging local developmental state advocated urban development and redevelopment to promote economic growth and to generate monetary returns. In the same vein, the municipality of Guangzhou became a strong advocate for growth with a deep interest in seeing more buildings constructed to change the built environment of central areas. Comprehensive large scale urban redevelopment to transform the urban built environment was listed on the local state's agenda.

Nevertheless, the local government's tight budget was grossly inadequate for the ambitious urban redevelopment. To speed up urban redevelopment under the existing structure of property rights, the local developmental state initiated coalition with the developers. REDCs were established to redevelop the area partially for commercial interests and partially for social goods (improving residents' housing conditions).

Jinhuajie redevelopment is a typical case of coalition between the local government and REDCs. Three developers who sign the agreement to carry out the redevelopment projects of Jinhuajie are all subordinate REDCs. Their operations were thus under the supervision of different levels of government. LUCDC is a branch of Guangzhou Urban Construction Development Company (GUCDC), which was the result of reorganization of the Guangzhou Housing Development Office¹⁴ in 1983. GUCDC is the first

¹⁴ This department was established in the municipality in 1978.

comprehensive real estate development enterprise of Guangzhou (<http://www.homecity365.com/aboutus/intro/index.html>, accessed on Feb. 4, 2005). Both XDC and LREMC were established in 1985 by Liwan District government. This can be proved by the fact that the general managers of LREMC and LUCDC are both once officials in the local government –Mr. Shao (LREMC) came from the *Headquarter for Urban Renewal of Jinhuaqie*, and Mr. Cao (LUCDC) came from the Urban Planning Bureau of Liwan District. To strengthen the coalition, *Headquarter for Urban Renewal of Jinhuaqie* was established under the direct guide of the local government of Liwan District and a plan for the redevelopment was produced as the guidance.

The municipal government adopted coalition with REDCs not only to promote land redevelopment but also to cut down the land revenue which should be handed over to the central government. Due to the distribution system of land revenues between the central, provincial and municipal governments, the local government was unwilling to use the mode of land leasing in the open market, for at least 15% of revenues from land leasing has to be handed over to the higher level governments. It is understood that the local municipal government would rather lease the land by negotiation through which the land leasing payment by the developer was lower than it would be through land leasing in the open market, but the developer is obligated to offer something else such as providing public facilities to the locality. Under the umbrella of coalitions, the local government and their subordinate REDCs co-operate in a fashion of reciprocity. On the one hand, the REDCs obtained the land at lower prices and are able to seek government

assistance like flexible planning controls. On the other hand, the REDCs should provide resettlement housing and some public facilities.

7.3.2 Property rights of actors under the coalition

1. Residents: compensation for handing over land use rights

The local government devised a set of targets that had to be met: (1) to achieve collaboration with its residents, (2) to maintain social stability; and (3) to attract investment. In practice, the set of targets ensured that residents would be highly compensated for their land use rights. Although it was compulsory for the residents to make way for the new construction, they could bargain for the compensation. In Guangzhou, Two compensation measures were regulated by the “Guideline to Implementation of Urban Demolition and Resettlement in Guangzhou” (1992) and it was up to the housing owners to choose the way of compensation:

1. on-site resettlement housing offered with the same size of the demolished one¹⁵
2. cash compensation for the demolished structure based on the evaluation by the Guangzhou Real Estate Exchange

Obviously, the residents would chose the on-site resettlement, as only the remaining value of demolished structures would be compensated in cash and this amount could not buy a new housing unit in similar locations. Public housing tenants were on-site resettled, as lease relationship could not be cancelled and the developers had to provide a place at a similar location for the tenants to live.

¹⁵ The regulation about the compensation was actually more complicated. For instance, when the living area per capita was less than 5 m² for one household, the minimum compensation would be 5 m² per capita.

Specifically in Guangzhou, the Overseas Chinese owned housing units had to be replaced twice in any redevelopment projects. Overseas Chinese owned housing was allocated to tenants during the 1950s and 1960s. Since 1987, returning Overseas Chinese their owned housing units has been a policy of Guangdong Province to reassure the Overseas Chinese that the province is a safe haven for investment (World Bank, 1993). On the other hand, housing tenants could not be expelled. Two-fold replacement for the Overseas Chinese owned housing units was thus required – once to provide new housing managed by the municipality to the tenant and once to provide the Overseas Chinese to a replacement for their demolished unit. In Jinhuaajie, about 100 house units have been replaced twice (interview to manager in LUCDC on Apr. 7, 2005).

Besides on-site resettlement, all returning households in Jinhuaajie redevelopment project have also received extra payment for moving expenses, temporary shelters, temporary shutout, etc (refer to Table 6.4). They are also paid for the delay of redevelopment projects. As a result, the demolition of housing was compensated with more than what would be in a mature market system. All the residents were resettled on-site, which allowed them to enjoy same or enlarged housing size¹⁶, improved housing condition and environment.

2. land user II: *danweis*

¹⁶ The compensation for on-site resettlement had been set that if the original living area is less than 5 m² per person, compensation of 5 m² per person will be provided free-of-charge. For households whose living area is less than 5 m² per person, the house units were enlarged. For other households, same area of the demolished units would be provided.

Under the socialist system of the planned economy, the land use rights of SOEs 'equaled or exceeded in many ways those conventionally associated with "ownership"' (Marcuse, 1996: 135). SOEs have strong land use rights which offer them the ability holding onto their land plots firmly and developing their occupied land as the basic units of the socialist state economy. During the first upsurge of urban redevelopment in the early 1990s, SOE's land was not included as the SOEs were not passive to make way for new development and the compensation for demolished premises only is not considered an incentive strong enough to give up the land use rights (Zhu, 2004).

3. Government subordinated REDCs

As the local government was unable to meet the two objectives of reducing land revenues owned to the central government and providing compensation to residents, it became necessary for the government to seek external help, via the coalitions with REDCs. As a result of the close relationship with the local state, these state subordinated REDCs are of note-worthy interest.

Obtaining land leasehold

Coalition brought a special way for the REDCs to obtain the land leasehold. Developers must pay for the land leasehold to the government under the new land leasehold system. However, the REDCs did not pay for the acquisition of land leasehold. Payments for land leasing were charged in an in-kind way – providing housing compensation to the residents and building public facilities for the local community as well as the municipality, both of which were actually responsibilities of the local government.

Development of public facilities accounted for a significant cost to the REDCs and those facilities were finally transferred free of charge to the local government as what has been observed in the case of redevelopment projects of Jinhuaajie (refer to Table 6.5; Figure 6.10).

Control over development rights

Being a system of regulating mechanisms, land use planning is an essential factor to stabilize the land and property market through increased certainty with respect to the future character of a place and reduce or internalize the impact of negative externalities (Jud, 1980; Zhu, 2004). However, as the exchange of the local benefit that the REDCs offer to the local government, planning control over their development rights was flexible. When the REDCs resorted to the local state for higher plot ratio to achieve the financial balance of the urban redevelopment project and increase commercial profitability, the local state changed the planning control parameters to accommodate them (see Table 6.7). Increased densities create unfavorable externalities in the locality as well as to the neighboring sites.

4. developer II: foreign or private developers

Unlike state subordinated REDCs, foreign or private developers acted as free actors in the development market. They were free to enter and disengage from the redevelopment projects. For instance, Hong Kong Jifen Investment Company stopped its investment on the redevelopment of Parcel 1¹⁷ of Jinhuaajie redevelopment projects in 1996 due to the

¹⁷ The joint-venture was formed between Jifeng Investment Company and LREMC in 1992.

poor market situation. However, property rights of foreign developers are not always clear. During the redevelopment process, foreign and private developers were first involved through the way of joint-venture in the early 1990s as the local REDCs would not give up the lucrative development projects of commodity housing and offices. Under the coalition between the local state and its subordinated REDCs, the foreign and private developers could also enjoy the flexible planning control and had to share the revenues with the local REDCs after the joint-venture project was completed and sold off – which means, the development rights over land of foreign and private developers were not clear, either.

Transfer of leasehold of land parcels with pre-set planning control parameters had been adopted by REDCs since 1996 as the REDCs were eager to obtain the capital for on-site resettlement housing development so as to reduce the amount of delay charge. They paid for the land leasehold to the REDCs and carried out the construction all by themselves. For example, LUCDC gained more than ¥0.2 billion from Yingfa (HK) for the development of the project of Ximenkou Square in Jinhua (source: interview to the official in LUCDC on Apr. 7, 2005).

7.3.3 Implications of the coalitions

Property rights resetting

As in the case of the redevelopment project of Jinhua, the coalition speeded up urban redevelopment by compensating the residents and providing on-site facilities and off-site infrastructures as the replacement of the land leasing payment. More importantly,

by resettling residents and housing commoditization, socialist land use rights of residents and tenancy right over public housing were replaced by ownership of private housing in the market. Sequential urban redevelopment could thus be carried out according to the new market mechanisms.

While the comprehensive urban redevelopment plan adopted by the coalition did have the effect of pushing the urban redevelopment process in the central areas, it did not attain a total success rate. As stipulated by the existing land users' strong use rights, the residents had to be on-site resettled, and this situation hampered the achievement of the target of restructuring urban land uses. In the meantime, land revenues which should been distributed among the *de jure* land owners - the central, provincial, municipal governments – are retained in Jinhua in the forms of housing compensated to the residents and public facilities.

Problems and consequence

During the first few years of practice of the coalition, various problems manifested. Due to the coalition, a very flexible land use planning system subject to negotiation was observed. In order to push for redevelopment, negotiations between developers and governments often led to alteration of planning parameters in the interests of individual projects (Zhu, 2004a). Individual projects may thus become financially feasible, but increasing burden to the environment and uncertainty in the land market are engendered.

Furthermore, although the residents were compensated for delay in the redevelopment projects, the risks that the projects could not be completed were still present. Due to the developers' limited ability to finance the redevelopment projects, the resettlement of the residents was always delayed. The residents would continuously appeal to the government to solve the problems. Environmental and social problems pushed the local government to abandon the coalition with the local developers. New institution of commodification of socialist land use rights was introduced in new land redevelopment projects. A report reveals that 3.42 million m² of construction area had been demolished in central areas since 1997 and 60,000 households were involved within which 28,000 households were not resettled yet (<http://www.yfzs.gov.cn/gb/info/dflf/2003-02/12/1934195047.html>, accessed on 16 June, 2005).

In facing with the problems, the local government was not willing to share the risks with the REDCs any more. The government would no longer relax development control to promote redevelopment projects but began to ask the residents to resort to juristic methods to claim for loss in uncompleted redevelopment projects (Southern Metropolis Daily, 26 May, 2005). On the other hand, for the new initiated land redevelopment projects, the government requested the developers to pay the residents in cash for the demolished structure at the price of 120% of the market price of the old units at one stroke, no matter whether the residents required cash compensation or resettlement. For the situation of resettlement, the residents would have the priority to buy new buildings ("Management Measure of Urban Housing Demolishment in Guangzhou", 2004).

7.4 Commodification of Short-term *de facto* Ownership of SOEs over Their Occupied Land

In Chinese cities, land redevelopment was promoted by the value of new land uses which was introduced to Chinese cities by the urban reforms. However, while old dilapidated neighborhoods were redeveloped under the coalition between the local state and developers, a large amount of administratively allocated land was still held by SOEs. Following the institutions of the centrally-planned system, once SOEs had been allocated land for their uses and occupation, it was up to the SOEs to decide how to use the asset and became very difficult in practice for the state to intervene (Zhu, 2004). Strong land use rights of SOEs endowed SOEs with the ability to hold tight to their occupied land, and compensation for demolished premises only is not considered an incentive strong enough to give up the land use rights. Driven by a formidable market demand for premises in the central locations, institutional change was called for to remove supply-side constraints by offering incentives to actors participating in land redevelopment (Zhu, 2004).

7.4.1 Property Rights of Actors in the redevelopment of SOE land

1. Land user: SOEs

*Short-term *de facto* ownership of SOE over occupied land*

A new measure was taken by the local government to promote the redevelopment of SOE land. SOEs were allowed to keep their land as administratively allocated land for 5 more years without paying for land leasing or rent¹⁸. Based on “Notice on reduce of

¹⁸ Referring to “Temporary regulation on management of administratively allocated land during SOE reforms”

land leasing payment of state-owned enterprises” (1995), SOEs under reform are allowed to change the land use type, develop¹⁹ or transfer the administratively allocated land under the supervision of their industrial groups. Only in the case of land transfer, would the land leasing payment be required. Even so, most of the land transfer revenue would be kept by the SOE except those handed over to the central and provincial governments, for Guangzhou subway construction and administration fee (accounting for 44% of the total revenue). In most cases, the government even supports the redevelopment SOE’s land by reducing the amount of land leasing revenues transferred to the government (Zheng, 2002). Thus, a SOE could have the *de facto* ownership – which includes the rights to use, to develop and to transfer the land over their occupied land for 5 years since its relocation.

Based on the regulation of SOE reforms in Guangzhou and the restriction of 5-year’s grace holding *de facto* land ownership, SOEs could only obtain full land revenues by redeveloping it in the terms given by the regulations. Once land plots were redeveloped, developed buildings with titles were tradable at market prices and thus land revenues could be materialized (Zhu, 2004). Redevelopment of SOE occupied land was quickly carried out in Guangzhou even though the real estate market did not provide encouraging prices for newly developed projects (see Table 5.3).

Table 5.3 Increase of the Price of Commodity Housing (Yuan/sqm)

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
price	3738.6	3156.5	5106.1	5064.0	4842.3	4303.6	4294.1	4262.3	4200.0	4210.7

Source: Guangzhou Statistic Bureau, various years

(1998).

¹⁹ It was forbidden to develop the land parcel by SOE itself. Only joint-venture was allowed.

Although transparent land leasing is supposedly the best way to maximize revenues from land sales in the interests of owners, it has not been used often (Zhu, 2004). Inevitably, land transfer was the last choice for the SOE sellers, as not all the land revenues could be retained by the sellers. Seeking as much land revenue as possible, SOEs adopted the following order of redevelopment in practice. First, the SOEs would change land use and redevelop the land by themselves; then, joint-venture with a developer for developing commodity housing. If both failed, SOEs would transfer the land to a buyer. As the last resort, SOE sellers have to submit a certain amount of land leasing revenues to the government. SOEs could capture different amounts of land revenues through different redevelopment methods. However, it was up to the market to decide whether the redevelopment projects could be carried out and became profitable. Only those projects which meet the requirement of the market could survive in the market competition.

Control over land redevelopment

Nominally, the social welfare problem of the SOEs was the responsibility of the government. The local government had an incentive to promote the redevelopment SOE land to help loss-making SOEs, and in the meantime, upgrade the built environment. Through redevelopment of the occupied land, a SOE could obtain capital needed to rearrange its production and resettle its workers, which were actually the responsibilities of its owner – the government. In most parcels in Jinhua, SOEs tried different ways to redevelop the land parcels, and all of their application for land use changes had been

approved.

In the meantime, the local government tried to push the relocation of SOEs and redevelopment of their occupied land by environment protection. In 1995, the bulletin of “Reply to the approval of the relocation of Quanxin Knitting Factory for environmental protection” was issued by Guangzhou Environment Protect Bureau to suggest one factory in Jinhuajie to relocate. In 1997, the local government of Guangzhou issued “Environmental Protection Plan of Guangzhou” which requires 68 factories that produced heavy pollution to move out of the urban areas. In Jinhuajie, 4 factories were in the list. As the imposition of an environment protection fee substantially increased the cost of production in factories located in the central areas, many industries were objectively stimulated to relocate.

2. Industrial group subordinated REDCs

In the redevelopment process of SOE’s land, industrial group subordinated REDCs obtained the priority to develop the land occupied by factories in the same group, because use of one SOE’s land was supervised by the industrial group that the SOE belongs to. However, no government aid would be offered to industrial group subordinated REDCs. Many projects carried out by REDCs have failed as the real estate markets is more and more competitive, and it becomes harder for real estate development companies supervised by industrial groups which lack of professional management to succeed.

3. Private developers

When the group subordinated REDCs could not offer the capital that the redevelopment projects required, the SOEs would resort to private developers, such as Anye Real Estate Development Company and Tianli Development Company in the redevelopment of SOE land in Jinhuajie. These private developers are represented as free agents in the land market with the ability to negotiate for various deals with the SOEs. During the land transfer process, these private developers stand to gain the most since the land leasing payment was already largely reduced through government support in promoting redevelopment of SOE land. In this way, the land rent derived from underpriced land acquisition, which should otherwise go to the government, become transferred to the developers and SOEs. With the development of SOE occupied land, private developers seized the opportunity to grow as it avoided the large outlay of funds in the mode of land leasing (Zhu, 2004).

7.4.2 Implications of commodification of SOE short-term *de facto* ownership

Within several years, SOE occupied land in central Guangzhou has been redeveloped and SOE's socialist land use rights are phased out. By redevelopment, land uses of central areas have been restructured and ownerships over properties have replace SOE land use rights. The redevelopment SOE occupied land in the late 1990s also witnessed the development of the land market. However, due to the restriction on redevelopment period and the flexible planning control, the redevelopment of SOE occupied land has been carried out in a rush and haphazard without careful planning.

7.5 Current Institution for Land Redevelopment

With both residents and SOE's land use rights being compensated, old land property rights system were replaced by a new one. On 31 August, 2004, the new regulation of "Notice on Strengthening the Supervision on Land Leasing of Profitable Projects via Bidding, Tender and Listing" was issued by the State. The Regulation required land to be leased through tender and bidding for all "profitable projects", which include the offices, commercial buildings and commodity housings. Negotiation is strictly forbidden for such projects.

Land redevelopment in Chinese cities has long been the process of replacing the dilapidated neighborhoods and firms to offices, commercial buildings and commodity housings. Forbidden of negotiation for land leasing of such projects suddenly brought the land redevelopment into a new stage. All the actors have to play in the land redevelopment market according to the market rules. In another word, the transitional institutions, such as coalition, short-term *de facto* ownership of the SOEs, are now phasing out the land redevelopment market.

7.6 Summary: Path-dependent Evolution of Property Rights

Referring to Figure 7.1, the institutional changes of property rights evolution and the consequences have been revealed in this chapter. China's economic reform since 1978 has triggered decision decentralization and market transition, which generate dynamic forces and shape the patterns and processes of China's urban redevelopment. Economic development and urban restructuring have become the premier tasks of Chinese cities

(He & Wu, 2005). Ever since 1988 when transfer of land use rights has become legal, Chinese cities are quickly transformed into a growth machine to promote local economic expansion and wealth accumulation (Zhu, 2000; Zhang, 2002; Fu, 2002). The local developmental state advocated land redevelopment to improve urban images and to promote local economic growth.

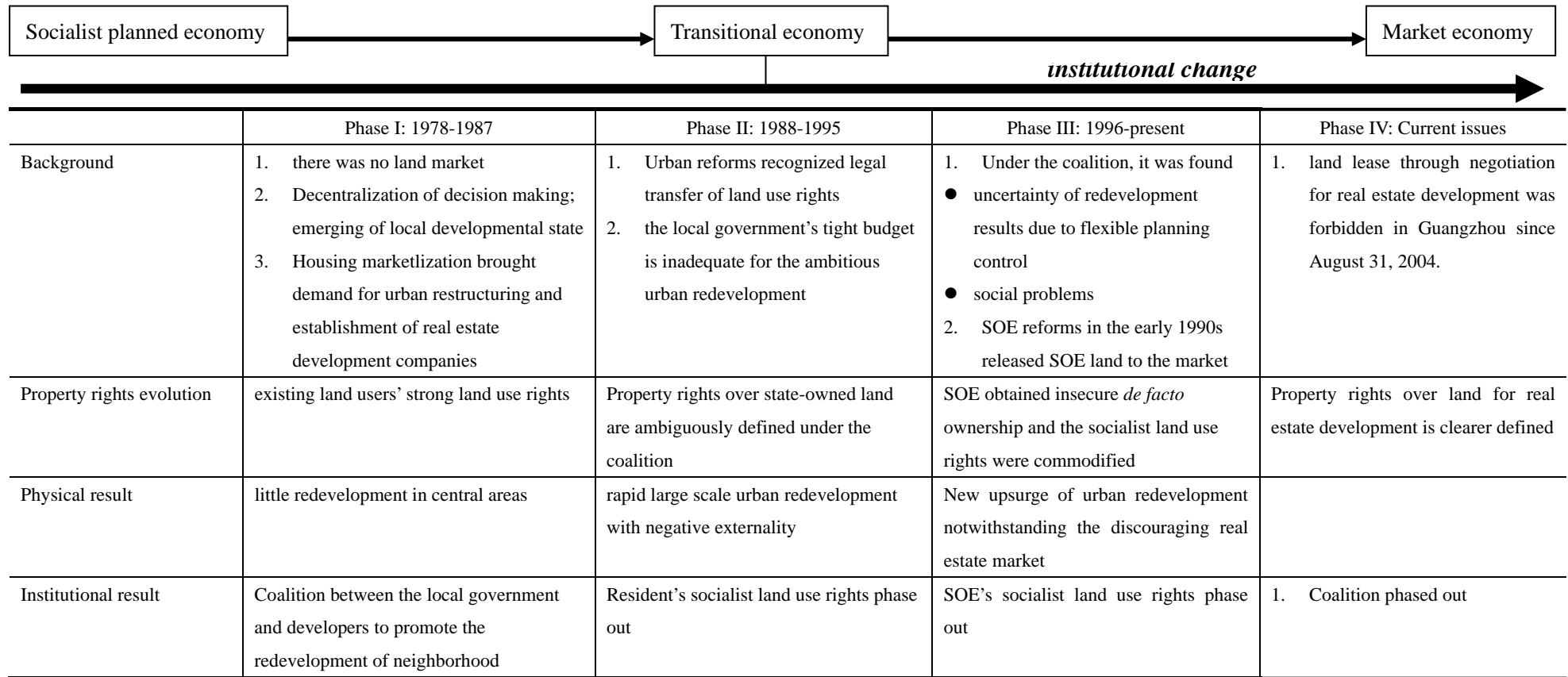
Briefly, the institutional changes could be channeled to four phases. Initially, the sitting land users had strong land use rights which hampered the urban redevelopment as they could hold onto their land firmly.

To promote land redevelopment, the local developmental state initiated coalition with state subordinated REDCs to carry out redevelopment of neighborhoods. In the redevelopment projects, the existing private land users have to hand over land for redevelopment but they would be compensated for the loss of land use rights. Developers obtained the right to develop with no land leasing fee and with flexible planning control, but at the cost of resettlement and compensation to the residents and provision of public facilities. By the government initiated redevelopment projects, residents land use rights were compensated and phased out in the emerging land market. Land revenues which were supposed to be handed over to central and provincial governments were siphoned off and used for construction of local public facilities. However, coalition for redevelopment of dilapidated neighborhoods could not touch the SOE holding land which was protected by its socialist use rights.

At the same time, SOE reforms in the early 1990s released SOE land to the market. In practice, SOEs were allowed to redevelop occupied land without payment for land leasing within 5 years in Guangzhou. The SOEs now have to relocate and hand over the right to use. And for a short period, it is allowed to develop their sitting land and gain profit or transfer the land but part of the profit must be handed over to the government. In another word, SOEs were pushed to redevelop occupied land in the terms regulated by the government to capture the land revenues. Although redevelopment of SOE land did not achieved satisfactory land uses, it helped to phase out SOE land use rights.

With both residents and SOE's land use rights being compensated, old land property rights system were replaced by a new one. New regulations to outlaw land leasing by negotiation have contributed substantially to the formation of the socialist land market mechanisms. Property rights of different actors are thus becoming clear in the real estate market.

Figure 7.1 Property Rights Evolution in the Transition



8 DISCUSSION AND CONCLUSION

8.1 Introduction

Land redevelopment in both the planned economies and market economies have been well studied based on the neo-classical economic analysis and sociological analysis. Even in the mature Western countries, the land market is a less efficient one than many others (Evans, 1995). It has been observed that the “visible hand” of government intervention always mediates in the land market. It has also been revealed that in the transitional era from the centrally-planned system to the market economy, the state works undeniably and omnipresently in the transitional China (Lin, 1999; Logan, 2002c; Zhu, 1999; Oi, 1996).

In the transitional economy of China, ongoing housing commercialization, urban reform and industry restructuring, and prosperous real estate development are turning the urban central areas into a hotspot of urban redevelopment (He & Wu, 2005). In the meantime, economic decentralization has resulted in the decreasing capacity of the central state and the emergence of local developmental interests (Lin, 1999; Logan, 2002). The local governments advocate redeveloping dilapidated central areas to improve living conditions and create a competitive city (Zhu, 1999c, 2000, 2002; Wu, 2004). However, emphasizing on the role of the local state and coalition neglects the actions and rights of existing land users. Also, the existing literatures haven’t covered the evolution of the features and driving forces of the urban redevelopment, which is actually persisting during the transitional phase. The pattern and transition of urban

redevelopment in transitional China is thus still unclear.

This research aims at assessing the driving force and evolution of land redevelopment in the transitional China. In the context of property rights and institutional change, objectives of this study have been set as:

1. Why have there been institutional changes in the transitional China?
2. How do the institutions evolve and structure the land redevelopment in the transitional China?
3. Following the institutional change, what patterns and processes of land redevelopment have been generated in transitional China?

8.2 Summary of Main Findings

1. discrepancy between the redevelopment interests of local government and the interests of existing land users

The institutional context of urban development in transitional Guangzhou highlighted the power restructuring among different levels of governments and the emergence of incentives for local development. After 30 years control of the centrally planned system and industrial development, the impetus of urban development in the post-reform era could be boiled down to the economic, housing, urban and SOE reforms. The local government of Guangzhou has been empowered by the decentralization of economic decision-making since 1978. Restructuring of economic activities and introducing of paid land transfer system arouse local interests of land

redevelopment for economic growth. The local developmental state has thus gradually evolved.

Due to political constraints, gradualism prevails and leads to trail and error in the implementation of new initiatives (Wang, 1994; Zhu, 2005). The old institutions have a vested interest in maintaining the *status quo* and are in a strong bargaining position to institutional changes. Land users, who have been endowed with strong land use rights, are keen to maximize their profit during the redevelopment process. Due to the disparity between the interests of the local developmental state and the existing land users, gradual institutional changes for land redevelopment in transitional China have been generated.

Urban physical transition in Guangzhou has been shaped by institutions evolved in the transition. During the 1980s, urban expansion of Guangzhou was greatly interfered by the government plan. Real estate markets have begun to act as a strong booster in remaking Guangzhou's landscape since the urban reform in 1988. The dynamics of development and redevelopment in Guangzhou have experienced several waves, indicating the evolution of the institutions.

2. Institutional changes: evolution of property rights over land

Gradual institutional changes emerged and evolved as the link between the out-going planning system and the in-coming market mechanisms. Initially, the sitting land users had strong land use rights which hampered the land redevelopment. To promote land

redevelopment, the local developmental state initiated coalition with state subordinated REDCs to carry out redevelopment of neighborhoods. Residents land use rights were compensated and phased out in the emerging land market. Land leasing payments which were supposed to be paid by the developers and partially handed over to central and provincial government were replaced by local public facilities. State subordinated REDCs tend to have problems in raising development finance in time and in sufficient amounts. They were engaged in intensive negotiations with government authorities for favorable terms. Flexible planning control over developers' development rights was offered by the local government under the coalition. Coalition for redevelopment of dilapidated neighborhoods did not cover SOE occupied land whose redevelopment was hampered by SOE's land use rights.

In the late 1990s, SOEs were allowed to redevelop occupied land without land leasing payment or rent within 5 years in Guangzhou. Government aided the redevelopment of SOE occupied land by approvals for constantly change of land use and redevelopment types. Although redevelopment of SOE land did not achieved optimal land use, it helped to phase out SOE land use rights in the land market. With both residents and SOE's land use rights compensated, property rights over land became clear in the land market. Coalition and short-term *de facto* ownership of SOE land were thus slowly phasing out the land market. New regulations to forbid negotiation for land leasing made land use in Chinese cities step further into the socialist land market mechanisms.

3. Physical characteristics of land redevelopment

a. Rapid redevelopment

The Jinhuajie case demonstrated that land redevelopment in the transition was structured by the in-coming market mechanisms, the emerging local developmental state and evolving transitional institutions. Advocated by the local developmental state, land redevelopment in central areas has been carried out rapidly. The study area has quickly changed from a dilapidated residential area with concentrated light industries to an area of housing, commercial buildings, offices and new urban infrastructures.

b. Evolution of redevelopment types

Corresponding to the property rights evolution in the transition, different redevelopment types have been popular in different stages of the transitional era and provided different landscapes. In the 1980s, the existing land users hold tight to their land and there were only scattered housing and office development projects carried out by *danweis*. Since 1988, the local developmental state initiated coalition with the developers to carry out large scale redevelopment projects so as to speed up urban redevelopment under the existing structure of property rights. In addition to the resettlement housing for residents, commodity housing and offices, the government subordinated REDCs also provided public facilities. As the exchange, the developers obtain the land leasehold at no payment to the government and flexible planning control subject to negotiation over development. In the early 1990s, associating with the commoditization of SOE's short-term *de facto* ownership, SOE occupied land were redeveloped within 5 years in the study area. SOE were free to adopt different method of redevelopment to pursue the land revenue.

c. *Flexible planning control*

Due to the coalition between the local state and developers, a very flexible land use planning system subject to negotiation was observed. Some planning control parameters such as plot ratio and land use types have been changed upon the request of the government subordinated REDCs. In the late 1990s, frequent change of redevelopment plans and reduced penalty of illegal construction had been offered by the local state to promote the redevelopment of SOE's land.

8.3 Conclusion

By this research, we can conclude: during the transition, the local government initiated gradual institutional changes to speed up local land redevelopment and phase out existing strong land use rights step by step. Informal property rights push redevelopment activities but do not provide certainty to the market and incentives for the optimal utilization of resources.

Building effective institutions for markets is a great challenge to many developing countries and transitional economies (Zhu, 2005). China's experience in establishing urban land markets has characterized by trial and error, structured by the gradual institutional changes. Land redevelopment in Guangzhou demonstrates that the local state plays a very important role in managing land redevelopment to pursue local benefits. The continuous decentralization since the reforms has created the local developmental state which advocates land redevelopment as a mean of local growth. However, the ambition of local government for land redevelopment confronted with the

strong rights of existing land users who hold firmly to their land unless satisfying price was paid. At the early stage of transition, the local government could not afford for the high compensation to existing land users to carry out land redevelopment.

During the transition, the local government initiated gradual institutional changes to speed up local land redevelopment. Under the local growth coalition between the government and developers, property rights of state subordinated REDCs are characterized by in-kind land leasing payment with flexible planning control on the basis of bargaining. During this process, residents' land use rights were compensated and phased out in the emerging land market. Later, *de facto* ownership is offered to SOEs in a short period to use, develop and transfer their occupied land to speed up redevelopment of SOE occupied land. Transitional institutional changes help to dispel socialist land use rights of residents and SOEs and make further development to be able to follow market mechanisms. As the proof, when socialist land use rights are phased out of the land market, the government abandons coalition and takes further measures for SOE reforms. For urban land, new regulations to forbid negotiation for land leasing made land use in Chinese cities step further into the socialist land market mechanisms. However, informal property rights over land during the transitional redevelopment process create land rents. Pursuing land rents results in rapid but sub-optimal redevelopment and inadequate order in the land market. Informal property rights push redevelopment activities but do not provide certainty to the market and incentives for the optimal utilization of resources.

Inevitably, city governments would have to pay for rapid land redevelopment as the redevelopment results harm urban planning and development control. Due to the delay of the preparation of new land use plans and fast redevelopment, most land parcels were transferred or redeveloped through negotiation before the land use plan was drawn up in Guangzhou. In other words, the use of the land parcels was pre-defined before an overall development control was prepared. This brought difficulties in planning preparation as the planners either had to revise their original intentions to include the pre-defined uses or had to negotiate with developers to reach a compromise (Xu, 2001).

8.4 Contribution to the Existing Knowledge

This research contributes to the analysis of urban redevelopment in transitional economy in general and the understanding of urban redevelopment of the transitional China in particular.

First, this dissertation has developed a theoretical framework to discover the pattern of institutional changes for land redevelopment. The structure of property rights over land and the evolution of property rights are studied by looking into the roles of different actors in the land redevelopment process. This framework can apply not only to China's urban studies, but also to other transitional contexts.

Second, this dissertation tracks the changes of institutions for land redevelopment in the transitional China. Existing sociological analyses of urban redevelopment tend to provide separated institutional background for the redevelopment rather than a sequential evolution of the institutions and actor's behaviors during the institutional change which this research focuses (Logan and Molotch, 1984; Logan and Molotch, 1987; Molotch, 1993; Stone, 1989; Stone, 1993; Lauria, 1997; Elkin, 1987; Fainstein and Fainstein, 1983; Kirby, 1993; MacLeod and Goodwin, 1999; Zhu, 1999a and Dowding, 2001).

Third, it has provided a systematic analysis of the impact of institutional changes on land redevelopment in China's transitional economy. Existing research failed in giving a detailed and systematic treatment to the roles of and interactions among the various actors (Han, 2000; Zhu, 1999c, 2004b). This research, by scrutinizing the property rights structures over land and the resulted redevelopment patterns, offers an insight to the land redevelopment in the transitional China.

8.5 Recommendations for Future Research

Tracking the institutional change in transitional economy

A trend of clarifying the property rights of the actors in the transitional economy has been revealed in this research. New regulations of the forbiddance of land transfer through negotiation in 2004 indicated a new stage of institutional change. Also, the local government is currently taking measures to abandon the coalition. For instance,

due to the coalition between the local state and developers, the local government would help the developers to complete the redevelopment projects by relaxing planning control. However, it is now recommending the residents to sue the developers for proper compensation without delay (Southern Metropolis Daily, May 26, 2005) and would no longer offer any help to the developers. A clearer definition of the property rights is emerging.

Tracking the property rights of actors in the urban development and redevelopment would finally build up a theoretical framework of institutional change in the transitional economy which this research is unable to achieve constrained by current stage of transition.

An empirical research integrating property rights approach and urban development in transitional economy

Property rights analysis in the urban redevelopment could also offer an insight to the patterns and changes of urban development. As what has been introduced in the theoretical framework, it is through property rights over land that the state intervenes in the building provision in the emerging land market. Property rights approach could be applied to study the urban development and its evolution.

Comparative studies between Chinese cities and other cities in transitional economies

A significant characteristic of the research is that its theoretical framework can be replicated to other Chinese cities as well as cities in other transitional economies. In the comparative study, it will likewise be possible to investigate the urban development and redevelopment structured by the property rights. A series of case studies of

different kinds of actors and their property rights, would be important to “better understand the ebb and flow of development opportunities and the contingent nature of local development pathways which shape the relative competitiveness of local urban and regional property markets” (Guy and Henneberry, 2000: 2413).

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APPENDIX I

Interviews in Guangzhou

Interviewee			Venue	Date
Name	Position	Organization		
Yuan Qifeng	Chief Planner	Guangzhou Urban Planning & Design Survey Research Institute	Guangzhou Urban Planning & Design Survey Research Institute	Mar. 4, 2004 May.10, 2004
Li Lixun	A/P	Geography Dept. Zhongshan University	Geography Dept. Zhongshan University	Mar. 8, 2004
Wei Qingquan	Professor	Geography Dept. Zhongshan University	Geography Dept. Zhongshan University	Mar. 12, 2004 May. 14, 2004
Zheng Jing	Planner	Guangzhou Urban Planning & Design Survey Research Institute	Guangzhou Urban Planning & Design Survey Research Institute	May. 17, 2004 Jul. 6, 2004
Li Junfu	Official	Guangzhou LRHB	Guangzhou LRHB	Feb. 28, 2004 Jul. 12, 2004
Zheng Xinmin	Clerk	Baoli Development. Company Ltd.	West Food Restaurant	Jul. 9, 2004
Gao Lei	Clerk	People's Congress	Chinese Food Restaurant	May. 22, 2004
Su Haidong	Official	Guangzhou Urban Planning Bureau	Guangzhou Urban Planning Bureau	Jun. 28, 2004 Apr. 6, 2005
Tan Kang	Vice director	Urban Planning Bureau of Liwan District	Urban Planning Bureau of Liwan District	Oct. 14, 2004
Mr. Mo & Ms. She	officials	Jinhua jie Street Community (<i>banshichu</i>)	Jinhua jie Street Community (<i>banshichu</i>)	Oct. 14, 2004
Mr. Shao	Chief Manager	Lihua Development Co.	Lihua Development Co.	Oct. 18, 2004 Nov. 7, 2004 Apr. 8, 2005
Mr. Cao	Vice Manager	Liwan Urban Construction Co.	Liwan Urban Construction Co.	Apr. 7, 2005